SEI INVESTMENTS CO
Form 10-Q
October 21, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)*
ýQuarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended September 30, 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 incorporation or organization)	(IRS Employer Identification Number)

1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100
(Address of principal executive offices)
(Zip Code)
(610) 676-1000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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 ý	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 ý

The number of shares outstanding of the registrant's common stock as of October 13, 2016 was 159,998,883.

SEI Investments Company

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PART I - FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

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

	September 30, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 623,162	$ 679,661
Restricted cash	5,500	5,500
Receivables from investment products	48,783	48,098
Receivables, net of allowance for doubtful accounts of $987 and $649	247,724	223,023
Securities owned	21,320	21,235
Other current assets	30,279	26,207
Total Current Assets	976,768	1,003,724
Property and Equipment, net of accumulated depreciation of $278,675 and $259,501	149,262	143,977
Capitalized Software, net of accumulated amortization of $292,745 and $259,358	290,329	290,522
Investments Available for Sale	93,157	81,294
Investments in Affiliated Funds, at fair value	4,888	4,039
Investment in Unconsolidated Affiliates	39,376	49,580
Deferred Income Taxes	3,722	—
Other Assets, net	16,064	15,492
Total Assets	$ 1,573,566	$ 1,588,628
Liabilities and Equity		
Current Liabilities:		
Accounts payable	$7,008	$4,511
Accrued liabilities	170,753	217,587
Deferred revenue	2,974	2,385
Total Current Liabilities	180,735	224,483
Deferred Income Taxes	65,518	63,028
Other Long-term Liabilities	14,103	11,397
Total Liabilities	260,356	298,908
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, $.01 par value, 750,000 shares authorized; 159,954 and 163,733 shares issued and outstanding	1,600	1,637
Capital in excess of par value	941,370	910,513
Retained earnings	400,778	402,860
Accumulated other comprehensive loss, net	(30,538)	(25,290)
Total Shareholders' Equity	1,313,210	1,289,720
Total Liabilities and Shareholders' Equity	$1,573,566	$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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Asset management, administration and distribution fees	$271,930	$252,585	$785,642	$756,101
Information processing and software servicing fees	76,443	74,413	224,834	218,765
Transaction-based and trade execution fees	6,268	8,624	22,259	23,945
Total revenues	354,641	335,622	1,032,735	998,811
Expenses:				
Subadvisory, distribution and other asset management costs	42,586	40,230	122,651	119,619
Software royalties and other information processing costs	7,519	8,028	22,944	23,594
Brokerage commissions	4,864	6,460	17,065	17,863
Compensation, benefits and other personnel	103,137	99,461	307,350	292,646
Stock-based compensation	4,066	3,867	12,044	11,476
Consulting, outsourcing and professional fees	43,631	35,963	121,712	108,560
Data processing and computer related	16,581	15,173	48,081	43,100
Facilities, supplies and other costs	17,075	22,477	50,194	56,195
Amortization	11,388	10,837	33,684	31,806
Depreciation	6,576	6,108	19,457	17,946
Total expenses	257,423	248,604	755,182	722,805
Income from operations	97,218	87,018	277,553	276,006
Net gain (loss) from investments	196	(756)	320	(544)
Interest and dividend income	1,026	846	3,142	2,570
Interest expense	(115)	(115)	(416)	(342)
Equity in earnings of unconsolidated affiliates	32,565	33,595	92,042	104,917
Gain on sale of subsidiary	—	—	2,791	2,791
Income before income taxes	130,890	120,588	375,432	385,398
Income taxes	44,186	41,163	130,226	135,122
Net income	86,704	79,425	245,206	250,276
Basic earnings per common share	$0.54	$0.48	$1.51	$1.51
Shares used to compute basic earnings per share	160,916	165,579	161,908	166,142
Diluted earnings per common share	$0.53	$0.47	$1.49	$1.47
Shares used to compute diluted earnings per share	163,925	169,255	165,053	169,977
Dividends declared per common share	$—	$—	$0.26	$0.24

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
Net income		$86,704		$79,425		$245,206		$250,276
Other comprehensive (loss) gain, net of tax:								
Foreign currency translation adjustments		(3,053)		(6,037)		(5,704)		(10,290)
Unrealized (loss) gain on investments:								
Unrealized (losses) gains during the period, net of income taxes of $94, $200, $(146) and $501	(160)		(734)		190		(1,254)	
Less: reclassification adjustment for losses (gains) realized in net income, net of income taxes of $(52), $(62), $(143) and $(49)	102	(58)	117	(617)	266	456	93	(1,161)
Total other comprehensive loss, net of tax		(3,111)		(6,654)		(5,248)		(11,451)
Comprehensive income		$83,593		$72,771		$239,958		$238,825

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

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$245,206	$250,276
Adjustments to reconcile net income to net cash provided by operating activities (See Note 1)	38,287	24,207
Net cash provided by operating activities	283,493	274,483
Cash flows from investing activities:		
Additions to restricted cash	—	(518)
Additions to property and equipment	(26,656)	(35,719)
Additions to capitalized software	(33,196)	(22,508)
Purchases of marketable securities	(55,162)	(34,040)
Prepayments and maturities of marketable securities	42,625	27,008
Sales of marketable securities	1,225	7,103
Receipt of contingent payment from sale of SEI AK	2,791	2,791
Other investing activities	1,313	(1,000)
Net cash used in investing activities	(67,060)	(56,883)
Cash flows from financing activities:		
Purchase and retirement of common stock	(224,815)	(213,256)
Proceeds from issuance of common stock	35,159	52,349
Tax benefit on stock options exercised	5,941	11,446
Payment of dividends	(84,686)	(80,030)
Net cash used in financing activities	(268,401)	(229,491)
Effect of exchange rate changes on cash and cash equivalents	(4,531)	(7,966)
Net decrease in cash and cash equivalents	(56,499)	(19,857)
Cash and cash equivalents, beginning of period	679,661	667,446
Cash and cash equivalents, end of period	$623,162	$647,589

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 September 30, 2016, the results of operations for the three and nine months ended September 30, 2016 and 2015, and cash flows for the nine-month periods ended September 30, 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 nine months ended September 30, 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 $347,477 and $448,957 at September 30, 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 September 30, 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 September 30, 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 $33,196 and $22,508 of software development costs during the nine months ended September 30, 2016 and 2015, respectively. The Company's software development costs primarily relate to the continued development of the SEI Wealth Platform^{SM} (the Platform). The Company capitalized $27,387 and $19,344 of software development costs for significant enhancements to the Platform during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the net book value of the Platform was $279,621. The Platform has an estimated useful life of 15 years and a weighted average remaining life of 5.7 years. Amortization expense for the Platform was $33,387 and $31,635 during the nine months ended September 30, 2016 and 2015, respectively. The Company also capitalized $5,809 and $3,164 of software development costs during the nine months ended September 30, 2016 and 2015, respectively, related to a new application for the Investment Managers segment.

During the three months ended September 30, 2015, the Company determined that specific functionality within the Platform is no longer in use and wrote off $5,533 of previously capitalized software development costs reported under the Private Banks and Investment Advisors business segments. The expense associated with the write-off is included in Facilities, supplies and other costs on the accompanying Consolidated Statement of Operations.

Earnings per Share

The calculations of basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015 are:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$86,704	$ 79,425	$245,206	$ 250,276
Shares used to compute basic earnings per common share	160,916,000	165,579,000	161,908,000	166,142,000
Dilutive effect of stock options	3,009,000	3,676,000	3,145,000	3,835,000
Shares used to compute diluted earnings per common share	163,925,000	169,255,000	165,053,000	169,977,000
Basic earnings per common share	$0.54	$ 0.48	$1.51	$ 1.51
Diluted earnings per common share	$0.53	$ 0.47	$1.49	$ 1.47

During the three months ended September 30, 2016 and 2015, employee stock options to purchase 10,258,000 and 9,938,000 shares of common stock with an average exercise price of $34.11 and $30.02, respectively, were outstanding but not included in the computation of diluted earnings per common share. During the nine months ended September 30, 2016 and 2015, employee stock options to purchase 10,384,000 and 9,999,000 shares of common stock with an average exercise price of $34.07 and $30.02, respectively, were outstanding but not included in the computation of diluted earnings per common share. These options for the three and nine month periods were 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.

Reclassifications

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

Statements of Cash Flows

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

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

	2016	2015
Net income	$245,206	$250,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,457	17,946
Amortization	33,684	31,806
Equity in earnings of unconsolidated affiliates	(92,042)	(104,917)
Distributions received from unconsolidated affiliate	102,246	116,913
Stock-based compensation	12,044	11,476
Provision for losses on receivables	338	(196)
Deferred income tax expense	(1,521)	(4,942)
Gain from sale of SEI AK	(2,791)	(2,791)
Net (gain) loss from investments	(320)	544
Change in other long-term liabilities	2,706	1,926
Change in other assets	(2,463)	(706)
Write-off of capitalized and purchased software	—	6,055
Other	602	(2,364)
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from investment products	(685)	2,601
Receivables	(25,037)	(23,081)
Other current assets	(4,072)	(11,013)
Increase (decrease) in		
Accounts payable	2,497	(5,950)
Accrued liabilities	(6,945)	(11,808)
Deferred revenue	589	2,708
Total adjustments	38,287	24,207
Net cash provided by operating activities	$283,493	$274,483

New Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The updated standard permits the use of either the retrospective or cumulative effect transition method. ASU 2014-09 currently becomes effective for the Company during the first quarter 2018. The Company is currently evaluating the transition method that will be elected and the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08), that amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. ASU 2016-08 also provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing (ASU 2016-10) that amends the revenue guidance in ASU 2014-09 on identifying performance obligations and accounting for licenses of intellectual property. ASU 2016-10 changed the FASB's previous proposals on renewals of right-to-use licenses and contractual restrictions. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) that will significantly change the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. ASU 2016-01 becomes effective for the Company during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02) requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The updated standard is effective for the Company beginning in the first quarter of 2019. Early adoption is permitted. The Company is currently evaluating the transition method that will be elected and the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09) requiring an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. ASU 2016-09 will also require an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. ASU 2016-09 becomes effective for the Company during the first quarter 2017. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

Note 2. Investment in Unconsolidated Affiliates

LSV Asset Management

The Company has an investment in LSV Asset Management (LSV), a registered investment advisor that provides investment advisory services primarily to institutions, including pension plans and investment companies. LSV is currently an investment sub-advisor for a limited number of SEI-sponsored mutual funds. 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 affiliates on the accompanying Consolidated Balance Sheets and its interest in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliates on the accompanying Consolidated Statements of Operations.

At September 30, 2016, the Company’s total investment in LSV was $39,376. The Company receives partnership distributions from LSV on a quarterly basis. The Company received partnership distributions from LSV of $102,246 and $116,913 in the nine months ended September 30, 2016 and 2015, respectively.

The Company’s proportionate share in the earnings of LSV was $32,565 and $33,595 during the three months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, the Company’s proportionate share in the earnings of LSV was $92,042 and $106,267, respectively.

The following table contains the condensed financial operations of LSV for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015

Revenues	$103,341	$102,754	$291,819	$326,192
Net income	83,646	85,686	235,893	270,868

In April 2016, LSV provided an interest in the partnership to select key employees which reduced the ownership percentage of each existing partner on a pro-rata basis. As a result, the Company's total partnership interest in LSV was reduced from approximately 39.2 percent to approximately 38.9 percent.

Guaranty Agreement with LSV Employee Group III

In October 2012, LSV Employee Group III purchased a portion of the partnership interest of three existing LSV employees for $77,700, of which $69,930 was financed through two syndicated term loan facilities contained in a credit agreement with The PrivateBank and Trust Company. The Company provided an unsecured guaranty for $45,000 of the obligations of LSV Employee Group III to the lenders through a guaranty agreement. The lenders have the right to seek payment from the Company in the event of a default by LSV Employee Group III. LSV agreed to provide an unsecured guaranty for $24,930 of the obligations of LSV Employee Group III to the lenders through a separate guaranty agreement.

The Company’s direct interest in LSV was unchanged as a result of this transaction. The Company has determined that LSV Employee Group III 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 III either directly or through any financial responsibility from the guaranty.

In September 2014, LSV Employee Group III made the final principal payment related to the term loan guaranteed by LSV. As of October 13, 2016, the remaining unpaid principal balance of the term loan guaranteed by the Company was $7,914. LSV Employee Group III has met all financial obligations to date regarding the scheduled repayment of the term loans since origination. The Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group III and, furthermore, fully expects that LSV Employee Group III will meet all of their future obligations regarding the term loan.

Note 3. Variable Interest Entities – Investment Products

The Company or its affiliates have 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. The Company receives asset management, distribution, administration and custodial fees for these services. Clients are the equity investors and participate in proportion to their ownership percentage in the net income or loss and net capital gains or losses 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.

The Company has adopted the amendments contained in ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis (ASU 2015-02) during the first quarter 2016. ASU 2015-02 amends the current guidance for both the VIE and the voting interest entity (VOE) consolidation models. This guidance rescinds the indefinite deferral of the VIE guidance for investment companies that permitted application of the risks and rewards based approach.

The Company has concluded that it is not the primary beneficiary of the entities and; therefore, is not required to consolidate any of the pooled investment vehicles for which it receives asset management, distribution, administration and custodial fees under the VIE model. The entities either do not meet the definition of a VIE or the Company does not hold a variable interest in the entities. The entities either qualify for the money market scope exception, or are entities in which the Company’s asset management, distribution, administration and custodial fees are commensurate with the services provided and include fair terms and conditions, or are entities that are limited partnerships which have substantive kick-out rights. The Company acts as a fiduciary and does not hold any other interests other than insignificant seed money investments in the pooled investment vehicles. For this reason, the Company also concluded that it is not required to consolidate the pooled investment vehicles under the VOE model.

The Company is a party to expense limitation agreements with certain SEI-sponsored money market funds subject to Rule 2a-7 of the Investment Company Act of 1940 which establish a maximum level of ordinary operating expenses incurred by the fund in any fiscal year including, but not limited to, fees of the administrator or its affiliates. Under the terms of these agreements, the Company waived $9,145 and $12,960 in fees during the three months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, the

Company waived $31,513 and $36,146, respectively, in fees.

Note 4. Composition of Certain Financial Statement Captions

Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2016	December 31, 2015
Trade receivables	$ 54,729	$ 47,179
Fees earned, not billed	179,494	154,919
Other receivables	14,488	21,574
	248,711	223,672
Less: Allowance for doubtful accounts	(987)	(649)
	$ 247,724	$ 223,023

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. In addition, certain fees earned from investment operations services are calculated based on assets under administration that have a prolonged valuation process which delays billings to clients.

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

Property and Equipment

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

	September 30, 2016	December 31, 2015
Buildings	$ 151,937	$ 151,604
Equipment	103,448	86,941
Land	10,030	10,003
Purchased software	128,935	122,433
Furniture and fixtures	17,230	16,143
Leasehold improvements	15,182	15,393
Construction in progress	1,175	961
	427,937	403,478
Less: Accumulated depreciation	(278,675)	(259,501)
Property and Equipment, net	$ 149,262	$ 143,977

The Company recognized $19,457 and $17,946 in depreciation expense related to property and equipment for the nine months ended September 30, 2016 and 2015, respectively.

During the three months ended September 30, 2015, the Company determined that certain purchased software related to the SEI Wealth Platform is no longer in use and wrote off $522 of the software classified as Purchased software reported under the Private Banks business segment. The expense associated with the write-off of the software is included in Facilities, supplies and other costs on the accompanying Consolidated Statement of Operations.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2016	December 31, 2015
Accrued employee compensation	$ 56,832	$ 74,687
Accrued consulting, outsourcing and professional fees	24,351	21,575
Accrued sub-advisory, distribution and other asset management fees	34,739	32,674
Accrued brokerage fees	8,613	9,058
Accrued dividend payable	—	42,625
Accrued income taxes	9,390	3,505
Other accrued liabilities	36,828	33,463
Total accrued liabilities	$ 170,753	$ 217,587

Note 5. Fair Value Measurements

The fair value of the Company’s financial assets and liabilities, except for the Company's investment funds sponsored by LSV, is determined in accordance with the fair value hierarchy. The fair value of the Company’s Level 1 financial assets consist mainly of investments in open-ended mutual funds that are quoted daily. Level 2 financial assets consist of Government National Mortgage Association (GNMA) mortgage-backed securities held by the Company's wholly-owned limited purpose federal thrift subsidiary, SEI Private Trust Company (SPTC), Federal Home Loan Bank (FHLB) and other U.S. government agency short-term notes and investment grade commercial paper held by SIDCO. The financial assets held by SIDCO were purchased as part of a cash management program requiring only short term, top-tier investment grade government and corporate securities. The financial assets held by SPTC are debt securities issued by GNMA and are backed by the full faith and credit of the U.S. government. These securities were purchased for the sole purpose of satisfying applicable regulatory requirements and have maturity dates which range from 2020 to 2041.

The Company has retrospectively adopted ASU No. 2015-07, Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (ASU 2015-07) during the first quarter 2016 for all periods presented. The fair value of the Company's investment funds sponsored by LSV is measured using the net asset value per share (NAV) as a practical expedient. The NAVs of the funds are calculated by the funds' independent custodian and are derived from the fair values of the underlying investments as of the reporting date. The funds allow for investor redemptions at the end of each calendar month. In accordance with ASU 2015-07, this investment has not been classified in the fair value hierarchy.

The valuation of the Company's Level 2 financial assets held by SIDCO and SPTC are based upon securities pricing policies and procedures utilized by third-party pricing vendors.

The pricing policies and procedures applied during the nine months ended September 30, 2016 were consistent with those as described in our Annual Report on Form 10-K at December 31, 2015. The Company had no Level 3 financial assets or liabilities at September 30, 2016 or December 31, 2015. There were no transfers of financial assets between levels within the fair value hierarchy during the nine months ended September 30, 2016.

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

		Fair Value Measurements at the End of the Reporting Period Using	
Assets	September 30, 2016	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)

		Assets (Level 1)	
Equity available-for-sale securities	$ 23,576	$23,576	$ —
Fixed-income available-for-sale securities	69,581	—	69,581
Fixed-income securities owned	21,320	—	21,320
Investment funds sponsored by LSV (1)	4,888		
	$ 119,365	$23,576	$ 90,901

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Assets	December 31, 2015	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity available-for-sale securities	$ 10,657	$10,657	$ —
Fixed-income available-for-sale securities	70,637	—	70,637
Fixed-income securities owned	21,235	—	21,235
Investment funds sponsored by LSV (1)	4,039		
	$ 106,568	$10,657	$ 91,872

(1) The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the accompanying Consolidated Balance Sheets (See Note 6).

Note 6. Marketable Securities

Investments Available for Sale

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

	At September 30, 2016			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SEI-sponsored mutual funds	$21,268	$ 52	$ (868)	$20,452
Equities and other mutual funds	2,965	159	—	3,124
Debt securities	68,524	1,057	—	69,581
	$92,757	$ 1,268	$ (868)	$93,157

	At December 31, 2015			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SEI-sponsored mutual funds	$8,474	$ —	$ (742)	$7,732
Equities and other mutual funds	2,857	68	—	2,925
Debt securities	70,308	329	—	70,637
	$81,639	$ 397	$ (742)	$81,294

Net unrealized gains (losses) at September 30, 2016 and December 31, 2015 were $154 (net of income tax expense of $246) and $(302) (net of income tax benefit of $43), respectively. These net unrealized gains and losses are reported as a separate component of Accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets.

There were gross realized gains of $270 and gross realized losses of $679 from available-for-sale securities during the nine months ended September 30, 2016. There were gross realized gains of $394 and gross realized losses of $535 from available-for-sale securities during the nine months ended September 30, 2015. Gains and losses from available-for-sale securities, including amounts reclassified from accumulated comprehensive income, are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

Investments in Affiliated Funds

The Company has an investment in funds sponsored by LSV. The Company records this investment on the accompanying Consolidated Balance Sheets at fair value. Unrealized gains and losses from the change in fair value of these funds are recognized in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

The investment primarily consists of U.S. dollar denominated funds that invest primarily in securities of Canadian, Australian and Japanese companies as well as various other global securities. The underlying securities held by the funds are translated into U.S. dollars within the funds. The funds had a fair value of $4,888 and $4,039 at September 30, 2016 and December 31, 2015, respectively. The Company recognized gross realized gains of $468 and $849 during the three and nine months ended September 30, 2016, respectively, from the change in fair value of the funds. During the three and nine months ended September 30, 2015, the Company recognized gross realized losses of $581 and $579, respectively, from the change in fair value of the funds.

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 $21,320 and $21,235 at September 30, 2016 and December 31, 2015, respectively. There were no material net gains or losses from the change in fair value of the securities during the three and nine months ended September 30, 2016 and 2015.

Note 7. Line of Credit

On June 13, 2016 (the Closing Date), the Company entered into a new five-year $300,000 Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association (Wells Fargo) and a syndicate of other lenders. The Credit Facility became available on the Closing Date and replaced the former credit facility agreement (the 2012 Credit Facility), also with Wells Fargo, that was scheduled to expire in February 2017. The Credit Facility is scheduled to expire in June 2021, 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 rates that, at the Company's option, are based on a base rate (the Base Rate) plus a premium that can range from 0.25 percent to 1.00 percent or the London InterBank Offered Rate (LIBOR) plus a premium that can range from 1.25 percent to 2.00 percent depending on the Company’s Leverage Ratio (a ratio of consolidated indebtedness to consolidated EBITDA for the four preceding fiscal quarters, all as defined in the related agreement). The Base Rate is defined as the highest of a) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 0.50 percent, b) the prime commercial lending rate of Wells Fargo, c) the applicable LIBOR plus 1.00 percent, or d) 0 percent. The Company also pays quarterly commitment fees based on the unused portion of the Credit Facility. The quarterly fees for the Credit Facility can range from 0.15 percent of the amount of the unused portion to 0.30 percent, depending on the Company’s Leverage Ratio. Certain wholly-owned subsidiaries of the Company have guaranteed the obligations of the Company under the agreement.

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. 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 under the Credit Facility at September 30, 2016. The Company was in compliance with all covenants of the Credit Facility and 2012 Credit Facility during the nine months ended September 30, 2016.

Note 8. Shareholders’ Equity

Stock-Based Compensation

The Company has only non-qualified stock options outstanding under its equity compensation plans. 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 a specified diluted earnings per share target is achieved, and the remaining 50 percent when a second, higher specified diluted earnings per share target is achieved. Options do not vest due to the passage of time but solely as a result of achievement of the financial vesting targets. 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 recognized stock-based compensation expense in its Consolidated Financial Statements in the three and nine months ended September 30, 2016 and 2015, respectively, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock-based compensation expense	$4,066	$3,867	$12,044	$11,476
Less: Deferred tax benefit	(1,466)	(1,425)	(4,235)	(4,084)
Stock-based compensation expense, net of tax	$2,600	$2,442	$7,809	$7,392

As of September 30, 2016, there was approximately $45,151 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 issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the nine months ended September 30, 2016 was $31,793. The total options exercisable as of September 30, 2016 had an intrinsic value of $171,673. The total intrinsic value for options exercisable is calculated as the difference between the market value of the Company's common stock as of September 30, 2016 and the weighted average exercise price of the shares. The market value of the Company's common stock as of September 30, 2016 was $45.61 as reported by the Nasdaq Stock Market, LLC. The weighted average exercise price of the options exercisable as of September 30, 2016 was $21.63. Total options that were outstanding and exercisable as of September 30, 2016 were 17,416,000 and 7,158,000, 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 5,193,000 shares at a total cost of $227,551 during the nine months ended September 30, 2016. The cost of stock purchases during the period includes the cost of certain transactions that settled in the following quarter. As of September 30, 2016, the Company had approximately $85,575 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.

Cash Dividend

On May 25, 2016, the Board of Directors declared a cash dividend of $0.26 per share on the Company's common stock, which was paid on June 22, 2016, to shareholders of record on June 14, 2016. Cash dividends declared during the nine months ended September 30, 2016 and 2015 were $42,061 and $39,852, respectively.

Note 9. Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss, net of tax, are as follows:

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Loss
Balance, January 1, 2016	$ (24,988)	$ (302)	$ (25,290)
Other comprehensive (loss) gain before reclassifications	(5,704)	190	(5,514)
Amounts reclassified from accumulated other comprehensive income	—	266	266
Net current-period other comprehensive (loss) gain	(5,704)	456	(5,248)
Balance, September 30, 2016	$ (30,692)	$ 154	$ (30,538)

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, independent wealth advisers and financial advisors worldwide;

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 fund companies, banking institutions and both traditional and non-traditional investment managers worldwide; and

Investments in New Businesses – focuses on providing investment management programs to ultra-high-net-worth families residing in the United States; developing internet-based investment services and advice solutions; entering new markets; and conducting 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 and nine months ended September 30, 2016 and 2015. 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, 2015.
The following tables highlight certain financial information about each of the Company's business segments for the three months ended September 30, 2016 and 2015.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
	For the Three Months Ended September 30, 2016					
Revenues	$115,952	$ 85,258	$ 76,222	$ 75,672	$ 1,537	$354,641
Expenses	105,523	45,080	36,943	48,588	5,348	241,482
Operating profit (loss)	$10,429	$ 40,178	$ 39,279	$ 27,084	$ (3,811)	$113,159

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
	For the Three Months Ended September 30, 2015					
Revenues	$116,280	$ 76,238	$ 74,515	$ 67,162	$ 1,427	$335,622
Expenses	104,217	45,530	36,923	43,899	5,179	235,748
Operating profit (loss)	$12,063	$ 30,708	$ 37,592	$ 23,263	$ (3,752)	$99,874

A reconciliation of the total operating profit reported for the business segments to income from operations in the Consolidated Statements of Operations for the three months ended September 30, 2016 and 2015 is as follows:

	2016	2015
Total operating profit from segments	$113,159	$99,874
Corporate overhead expenses	(15,941)	(12,856)
Income from operations	$97,218	$87,018

The following tables provide additional information for the three months ended September 30, 2016 and 2015 pertaining to our business segments:

	Capital Expenditures (1)		Depreciation	
	2016	2015	2016	2015
Private Banks	$15,018	$12,707	$3,289	$3,141
Investment Advisors	6,744	4,899	940	864
Institutional Investors	1,744	1,955	344	302
Investment Managers	6,210	5,286	1,228	1,039
Investments in New Businesses	379	379	549	572
Total from business segments	$30,095	$25,226	$6,350	$5,918
Corporate overhead	1,111	1,205	226	190
	$31,206	$26,431	$6,576	$6,108

(1) Capital expenditures include additions to property and equipment and capitalized software.

	Amortization	
	2016	2015
Private Banks	$7,972	$7,604
Investment Advisors	2,626	2,512
Institutional Investors	425	383
Investment Managers	275	255
Investments in New Businesses	40	26
Total from business segments	$11,338	$10,780
Corporate overhead	50	57
	$11,388	$10,837

The following tables highlight certain financial information about each of the Company's business segments for the nine months ended September 30, 2016 and 2015.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
	For the Nine Months Ended September 30, 2016					
Revenues	$344,149	$243,820	$223,793	$216,528	$4,445	$1,032,735
Expenses	312,126	134,575	108,875	140,831	15,935	712,342
Operating profit (loss)	$32,023	$109,245	$114,918	$75,697	$(11,490)	$320,393
Gain on sale of subsidiary	2,791	—	—	—	—	2,791
Segment profit (loss)	$34,814	$109,245	$114,918	$75,697	$(11,490)	$323,184

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
	For the Nine Months Ended September 30, 2015					
Revenues	$342,826	$228,006	$224,043	$199,809	$4,127	$998,811
Expenses	308,200	125,446	108,662	126,663	14,848	683,819
Operating profit (loss)	$34,626	$102,560	$115,381	$73,146	$(10,721)	$314,992
Gain on sale of subsidiary	2,791	—	—	—	—	2,791
Segment profit (loss)	$37,417	$102,560	$115,381	$73,146	$(10,721)	$317,783

A reconciliation of the total operating profit reported for the business segments to income from operations in the Consolidated Statements of Operations for the nine months ended September 30, 2016 and 2015 is as follows:

	2016	2015
Total operating profit from segments	$320,393	$314,992
Corporate overhead expenses	(42,840)	(38,986)
Income from operations	$277,553	$276,006

The following tables provide additional information for the nine months ended September 30, 2016 and 2015 pertaining to our business segments:

	Capital Expenditures		Depreciation	
	2016	2015	2016	2015
Private Banks	$32,184	$31,317	$9,669	$9,214
Investment Advisors	12,863	11,060	2,880	2,527
Institutional Investors	3,236	3,970	1,017	903
Investment Managers	9,275	9,128	3,590	3,029
Investments in New Businesses	594	662	1,644	1,706
Total from business segments	$58,152	$56,137	$18,800	$17,379
Corporate Overhead	1,700	2,090	657	567
	$59,852	$58,227	$19,457	$17,946

	Amortization	
	2016	2015
Private Banks	$23,452	$22,300
Investment Advisors	7,764	7,371
Institutional Investors	1,249	1,133
Investment Managers	816	755
Investments in New Businesses	106	76
Total from business segments	$33,387	$31,635
Corporate Overhead	297	171
	$33,684	$31,806

Note 11. Income Taxes

The gross liability for unrecognized tax benefits at September 30, 2016 and December 31, 2015 was $16,028 and $14,517, respectively, exclusive of interest and penalties, of which $14,054 and $12,898 would affect the effective tax rate if the Company were to recognize the tax benefit.

The Company classifies interest and penalties on unrecognized tax benefits as income tax expense. As of September 30, 2016 and December 31, 2015, the combined amount of accrued interest and penalties related to tax positions taken on tax returns was $1,411 and $1,391, respectively.

	September 30, 2016	December 31, 2015
Gross liability for unrecognized tax benefits, exclusive of interest and penalties	$ 16,028	$ 14,517
Interest and penalties on unrecognized benefits	1,411	1,391
Total gross uncertain tax positions	$ 17,439	$ 15,908
Amount included in Current liabilities	$ 3,336	$ 4,511
Amount included in Other long-term liabilities	14,103	11,397
	$ 17,439	$ 15,908

The Company’s effective tax rate was 33.8 percent and 34.1 percent for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, the Company's tax rate was 34.7 percent and 35.1 percent, 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 2012 and is no longer subject to state, local or foreign income tax examinations by authorities for years before 2008.

The Company estimates it will recognize $3,336 of gross unrecognized tax benefits which is expected to be paid within one year due to the expiration of the statute of limitations and resolution of income tax audits and is netted against the current payable account. 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,