SEI INVESTMENTS CO
Form 10-Q
May 04, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)*

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended 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	**23-1707341**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100

(Address of principal executive offices)

(Zip Code)

(610) 676-1000

(Registrant s telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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 x

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
Assets		
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
Liabilities and Equity		
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	Three Months Ended March 31, 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)	(116)	(671)	(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		325	
Diluted earnings per common share	$ 34,200	191,409	$ .18

	For the Three Month Period Ended March 31, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 48,946	193,629	$ .25
Dilutive effect of stock options		4,582	
Diluted earnings per common share	$ 48,946	198,211	$ .25

Employee stock options to purchase 26,078,000 and 6,017,000 shares of common stock, with an average exercise price of $20.51 and $30.83, were outstanding during the three month periods ended March 31, 2009 and 2008, 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.

Comprehensive Income (Loss)

Accumulated other comprehensive loss, net of tax, consists of:

	Foreign Currency Translation Adjustments	Unrealized Holding Losses on Investments	Accumulated Other Comprehensive Loss
Total accumulated comprehensive loss at December 31, 2008	$ (9,787)	$ (1,524)	$ (11,311)
Less: Total accumulated comprehensive loss attributable to noncontrolling interest at December 31, 2008	3,148		3,148
Total accumulated comprehensive loss attributable to SEI Investments Company at December 31, 2008	$ (6,639)	$ (1,524)	$ (8,163)
Total comprehensive loss for the three months ended March 31, 2009	$ (1,770)	$ (116)	$ (1,886)
Less: Total comprehensive loss attributable to noncontrolling interest for the three months ended March 31, 2009	486		486
Total comprehensive loss attributable to SEI Investments Company for the three months ended March 31, 2009	$ (1,284)	$ (116)	$ (1,400)
Total accumulated comprehensive loss at March 31, 2009	$ (11,557)	$ (1,640)	$ (13,197)
Less: Total accumulated comprehensive loss attributable to noncontrolling interest at March 31, 2009	3,634		3,634
Total accumulated comprehensive loss attributable to SEI Investments Company at March 31, 2009	$ (7,923)	$ (1,640)	$ (9,563)

Noncontrolling Interest

Noncontrolling interest on the accompanying Consolidated Balance Sheet as of December 31, 2008 includes a cumulative reclass adjustment of $3,148 as a result of the Company s adoption of SFAS 160. This reclass adjustment relates to foreign currency translation adjustments.

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:

	2009	2008
Net income attributable to SEI Investments Company	$ 34,200	$ 48,946
Adjustments to reconcile net income attributable to SEI Investments Company to net cash provided by operating activities:		
Depreciation and amortization	12,562	11,520
Undistributed earnings of noncontrolling interests	16,951	39,829
Payments to partners of LSV	(26,967)	(37,620)
Stock-based compensation	3,430	4,683
Provision for losses on receivables	247	(1,003)
Deferred income tax expense (benefit)	43,213	(8,884)
Net realized losses (gains) from investments	130,488	(1,749)
Change in other long-term liabilities	685	381
Change in other assets	669	380
Other	(2,710)	(3,397)
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from regulated investment companies	5,773	371
Receivables	14,366	1,221
Other current assets	(39,235)	(130)
Increase (decrease) in		
Accounts payable	(3,254)	1,416
Capital Support Agreements	(116,038)	25,795
Payable to regulated investment companies	(55)	35
Accrued liabilities	(24,613)	(14,392)
Deferred revenue	(160)	863
Total adjustments	15,352	19,319
Net cash provided by operating activities	$ 49,552	$ 68,265

New Accounting Pronouncements

On April 9, 2009, the FASB issued FASB Staff Position (FSP) FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4), and FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1). FSP 157-4 provides additional guidance for estimating fair value in accordance with FAS 157, Fair Value Measurements, when the volume and level of activity for the asset or liability has significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 107-1 amends FAS 107, Disclosures about Fair Value of Financial instruments, to require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. FSP 107-1 also amends Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP 157-4 and FSP 107-1 are effective for the Company beginning in the second quarter 2009 and earlier application is permitted beginning with the first quarter 2009. FSP 157-4 and FSP 107-1 must be applied prospectively and retrospective application is not permitted. The Company will apply FSP 157-4 and FSP 107-1 effective with its second quarter 2009. The Company is currently evaluating the impact FSP 157-4 and FSP 107-1 will have on its consolidated financial statements, but does not believe it will have a significant impact upon adoption.

On April 9, 2009, the FASB issued FSP 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2). FSP 115-2 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities. FSP 115-2 also contains additional disclosure requirements related to debt and equity securities. FSP 115-2 is effective for the Company beginning in the second quarter 2009 and earlier application is permitted beginning with the first quarter 2009. The Company will apply FSP 115-2 effective with its second quarter 2009. The Company is currently evaluating the impact FSP 115-2 will have on its consolidated financial statements, but does not believe it will have a significant impact upon adoption.

Reclassifications

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

Note 2. LSV and LSV Employee Group

The Company has an investment in the general partnership LSV Asset Management (LSV), 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 number of SEI-sponsored mutual funds. The Company s total partnership interest in LSV was approximately 43 percent during 2008 and the three months ended March 31, 2009. LSV Employee Group is owned by several current employees of LSV and was formed for the sole purpose of owning a partnership interest in LSV. The Company does not own any interest in LSV Employee Group.

Two partners of LSV, excluding the Company, sold in the aggregate an eight percent interest in LSV to LSV Employee Group. The Company entered into a Guaranty Agreement with LSV Employee Group, Bank of America, N.A. (formerly LaSalle Bank National Association) as administrative agent (the Agent), and certain other lenders in order to facilitate the acquisition of certain partnership interests of LSV by LSV Employee Group. LSV Employee Group obtained financing from the Agent and certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement (See LSV Employee Group Term Loan below).

Pursuant to the terms and conditions of the Guaranty Agreement, the Company has agreed to provide an unsecured guaranty to the lenders of all obligations of LSV Employee Group under the Credit Agreement. In the event of default by LSV Employee Group, the lenders have the right to seek payment from the Company of all obligations of LSV Employee Group under the Credit Agreement. As recourse for such payment, the Company will be subrogated to the rights of the lenders under the Credit Agreement and the Guaranty Agreement, including the security interest in the pledged interests transferred to LSV Employee Group.

Under FIN 46, LSV Employee Group meets the definition of a variable interest entity and the Company is the primary beneficiary. As a result of this transaction, the Company has a controlling financial interest in LSV through its direct ownership of LSV and guaranty of LSV Employee Group s debt. The Company, therefore, consolidates the assets, liabilities and operations of LSV and LSV Employee Group in its Consolidated Financial Statements. The Company s percentage of direct ownership in LSV was unchanged (approximately 43 percent) as a result of this transaction. The amount of ownership of the other existing partners (approximately 57 percent) of LSV is included in Noncontrolling interest.

The Company determined that $72,220 of the $92,000 purchase price related to identifiable intangible assets and the remaining $19,780 was goodwill. The identifiable intangible assets have an estimated life of ten years and are amortized on a straight-line basis. The Company recognized $1,805 in amortization expense in the three month periods ended March 31, 2009 and 2008, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statement of Operations. Amortization expense recognized in the Consolidated Statement of Operations associated with the assets of LSV Employee Group was eliminated through Noncontrolling interest and had no impact on net income.

	March 31, 2009	December 31, 2008
Intangible asset, at cost	$ 72,220	$ 72,220
Accumulated amortization	(23,471)	(21,666)
Net book value	$ 48,749	$ 50,554

In March 2009, certain partners (the Contributing partners) of LSV, including the Company, have 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 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. As of March 31, 2009, the Contributing partners did not issue any interest in LSV.

In April 2009, the Contributing partners agreed to provide certain key employees an interest in LSV, thereby reducing the Company s interest in LSV to just under 42 percent. The Company expects to deconsolidate the assets, liabilities, revenues and expenses of LSV and account for its interest in LSV under the equity method of accounting effective April 1, 2009. The Company s indirect eight percent ownership interest in LSV due to the unsecured loan guaranty provided to LSV Employee Group remained unchanged. The Company will continue to consolidate the accounts of LSV Employee Group until such time as the term loan is paid in full. The Company is currently evaluating the impact of this transaction on its consolidated financial statements, in particular, as it pertains to SFAS 160 and SFAS No. 141 (revised 2007), Business Combinations.

LSV Employee Group Term Loan

In order to finance a portion of the purchase price, LSV Employee Group obtained financing from Bank of America, N.A. (formerly LaSalle Bank National Association) and certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement. The principal amount of the term loan is $82,800. The principal amount and interest of the term loan are paid in quarterly installments. The total outstanding principal balance of the term loan must be paid in full by January 2011. LSV Employee Group may prepay the term loan in whole or in part at any time without penalty. As of March 31, 2009, the remaining unpaid principal balance of the term loan was $27,686, of which $6,400 is classified as current and included in Current portion of long-term debt and the remaining $21,286 is included in Long-term debt on the accompanying Consolidated Balance Sheets. LSV Employee Group made principal payments of $3,846 and $5,176 during the three months ended March 31, 2009 and 2008, respectively. Interest expense for the three months ended March 31, 2009 and 2008 on the Consolidated Statements of Operations includes $416 and $731, respectively, in interest costs associated with the borrowings of LSV Employee Group which was eliminated through Noncontrolling interest and had no impact on net income.

LSV Employee Group made a principal payment of $2,998 in April 2009. The remaining unpaid principal balance of the term loan at April 29, 2009 was $24,688. The Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group.

The book value of LSV Employee Group s long-term debt is considered to be representative of its fair value based upon an estimation using borrowing rates currently available for bank loans with similar terms and maturities.

LSV Employee Group entered into two interest rate swap agreements to convert its floating rate long-term debt to fixed rate debt. One of these swap agreements terminated on March 31, 2009. The remaining swap agreement has a notional value of $27,440. Payments are made every 90 days and the termination date of the remaining swap agreement is January 2011. The net effect from the interest rate swaps on the Company s earnings during the three months ended March 31, 2009 and 2008 was minimal.

Note 3. Goodwill and Other Intangible Asset

In June 2003, the Company purchased an additional percentage ownership in LSV. The total purchase price was allocated to LSV s net tangible and intangible assets based upon their estimated fair values at the date of purchase. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill. The total amount of goodwill from this transaction amounted to $3,062 and is included on the accompanying Consolidated Balance Sheets.

The Company identified an intangible asset related to customer contracts that met the contractual-legal criterion for recognition apart from goodwill. The fair value of the intangible was determined to be $3,821 with a definite life of eight and a half years. The identified intangible asset is amortized on a straight-line basis. The Company recognized $109 of amortization expense in the first quarter of 2008 and 2009, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statements of Operations.

	March 31, 2009	**December 31, 2008**
Intangible asset, at cost	$ 3,821	$ 3,821
Accumulated amortization	(1,966)	(1,857)
Net book value	$ 1,855	$ 1,964

Note 4. Composition of Certain Financial Statement Captions

Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	March 31, 2009	December 31, 2008
Trade receivables	$ 52,772	$ 49,656
Fees earned, not billed	113,977	130,341
Other receivables	2,446	2,504
	169,195	182,501
Less: Allowance for doubtful accounts	(2,904)	(2,656)
	$ 166,291	$ 179,845

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, 2009	December 31, 2008
Buildings	$ 131,342	$ 131,321
Equipment	60,090	63,952
Land	9,695	9,695
Purchased software	59,643	58,846
Furniture and fixtures	18,040	18,141
Leasehold improvements	5,254	5,288
Construction in progress	4,230	3,121
	288,294	290,364
Less: Accumulated depreciation and amortization	(142,743)	(142,240)
Property and Equipment, net	$ 145,551	$ 148,124

The Company recognized $5,509 and $5,361 in depreciation and amortization expense related to property and equipment for the three months ended March 31, 2009 and 2008, respectively.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	March 31, 2009	December 31, 2008
Accrued employee compensation	$ 18,767	$ 35,425
Accrued employee benefits and other personnel	7,112	8,012
Accrued consulting, outsourcing and professional fees	18,465	15,055
Accrued distribution fees	3,532	14,228
Accrued brokerage fees	16,412	14,001
Accrued other commissions and fees	15,587	15,537
Accrued dividend payable		15,297
Other accrued liabilities	14,991	17,221
Total accrued liabilities	$ 94,866	$ 134,776

Note 5. Fair Value Measurements

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used by the Company to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities without adjustment. The Company s Level 1 assets primarily include investments in mutual funds sponsored by SEI and LSV that are quoted daily.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company s Level 2 assets primarily include securities issued by the Government National Mortgage Association with quoted prices that are traded less frequently than exchange-traded instruments. The value of these assets is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment by management. The Company s Level 3 financial assets include SIV securities (See Notes 6 and 7). The Company elected the fair value option under SFAS 159 to account for these securities. The Company s Level 3 financial liabilities include the Capital Support Agreements which are considered derivative financial instruments (See Note 7).

The fair value of an asset or liability may include inputs from more than one level in the fair value hierarchy. The lowest level of significant inputs used to value the asset or liability determines which level the asset or liability is classified in its entirety.

The underlying collateral of the SIV securities is mainly comprised of asset-backed securities and collateralized debt obligations. Recent liquidity issues surrounding collateralized debt obligations and asset backed-securities has greatly affected the fair value of SIV securities. Given the lack of any reliable market data on the SIV securities owned by the Company or held by SEI-sponsored money market funds, the fair value of these SIV securities is determined using a net asset value approach which considers the value of the underlying collateral. The Company utilizes external pricing services that incorporate market data, where available, or through the use of matrix pricing or other acceptable measures. The valuation methodology used by these service providers considers various characteristics of the underlying collateral including, but not limited to, the issuer, collateral attributes, prepayment speeds, and credit ratings. The underlying collateral that lack any market data are grouped by sector and valued using the most recent quoted price, which may be longer than one year, and adjusting that price by the percentage change in the respective sector using relative benchmarks. Prices for the SIV securities as well as the underlying collateral are subject to internal reviews that consider broker quotes, current market observations and other analyses to verify the fair value. In the event a market transaction does exist, management evaluates the circumstances surrounding the transaction in order to assess if the price used represents the fair value according to the guidance in SFAS 157. In management s opinion, the price of certain SIV securities used in recent transactions were from distressed sales and did not represent the implied fair value of the SIV securities held by the Company or by the SEI-sponsored money market funds.

The fair value of certain financial assets and liabilities of the Company was determined using the following inputs at March 31, 2009:

		Fair Value Measurements at Reporting Date Using		
Assets	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Equity available-for-sale securities	$ 17,480	$ 17,480	$	$
Fixed income available-for-sale securities	54,253		54,253	
Trading securities issued by SIVs	68,857			68,857
Other trading securities	5,543	3,958		1,585
	$ 146,133	$ 21,438	$ 54,253	$ 70,442
Liabilities				
Capital Support Agreements	$ 57,945	$	$	$ 57,945
	$ 57,945	$	$	$ 57,945

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, 2009 to March 31, 2009:

	Trading Securities Issued by SIVs	**Other Trading Securities**	**Capital Support Agreements**
Balance, January 1, 2009	$ 5,713	$ 1,697	$ (173,983)
Purchases, issuances and settlements, net	193,624		
Total gains or losses (realized/unrealized):			
Included in earnings	(130,480)	(112)	116,038
Included in other comprehensive income			
Transfers in and out of Level 3			
Balance March 31, 2009	$ 68,857	$ 1,585	$ (57,945)

The $116,038 included in earnings for the Company s Capital Support Agreements primarily relates to the reduction in the Company s obligation related to the Capital Support Agreements as a result of the Company s purchase of SIV securities from SEI-sponsored money market funds during the three months ended March 31, 2009 (See Note 7).

Note 6. Marketable Securities

Investments Available for Sale

Investments available for sale of the Company s non-broker-dealer subsidiaries classified as non-current assets consist of:

	As of March 31, 2009			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SEI-sponsored mutual funds	$ 18,868	$	$ (3,974)	$ 14,894
Other mutual funds	3,218		(632)	2,586
Debt securities	51,989	2,264		54,253
	$ 74,075	$ 2,264	$ (4,606)	$ 71,733