SEI INVESTMENTS CO
Form 10-Q
November 10, 2008

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 September 30, 2008

or

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

0-10200

(Commission File Number)

SEI INVESTMENTS COMPANY

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-1707341**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification Number)**

1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100

(Address of principal executive offices)

(Zip Code)

(610) 676-1000

(Registrant s telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 the 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 ¨ 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 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 November 6, 2008: 190,589,562 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)

	September 30, 2008	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 345,790	$ 360,921
Restricted cash	34,250	10,250
Receivables from regulated investment companies	35,047	38,198
Receivables, net of allowance for doubtful accounts of $2,956 and $3,032 (Note 4)	218,729	236,911
Deferred income taxes	52,417	17,310
Securities owned	12,093	16,777
Other current assets	15,791	14,567
Total Current Assets	714,117	694,934
Property and Equipment, net of accumulated depreciation and amortization of $136,968 and $126,591 (Note 4)	150,735	143,516
Capitalized Software, net of accumulated amortization of $47,455 and $34,915	258,190	231,684
Marketable Securities (Note 6)	86,017	77,169
Goodwill (Notes 2 and 3)	22,842	22,842
Intangible Assets, net of accumulated amortization of $21,607 and $15,864 (Notes 2 and 3)	54,434	60,177
Other Assets	17,039	22,043
Total Assets	$ 1,303,374	$ 1,252,365

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

SEI Investments Company

Consolidated Balance Sheets

(unaudited)

(In thousands, except par value)

	September 30, 2008	December 31, 2007
Liabilities and Shareholders Equity		
Current Liabilities:		
Current portion of long-term debt	$ 7,200	$ 8,000
Accounts payable	12,047	8,690
Payable to regulated investment companies	762	601
Accrued liabilities (Note 4)	134,462	186,902
Capital Support Agreements (Note 7)	112,423	25,122
Deferred revenue	621	1,052
Total Current Liabilities	267,515	230,367
Long-term Debt	29,623	43,971
Deferred Income Taxes	81,978	73,600
Minority Interest	128,858	136,149
Other Long-term Liabilities (Note 11)	12,021	11,895
Commitments and Contingencies		
Shareholders Equity:		
Common stock, $.01 par value, 750,000 shares authorized; 191,286 and 194,375 shares issued and outstanding	1,913	1,944
Capital in excess of par value	474,615	445,474
Retained earnings	309,645	298,975
Accumulated other comprehensive (loss) income, net	(2,794)	9,990
Total Shareholders Equity	783,379	756,383
Total Liabilities and Shareholders Equity	$ 1,303,374	$ 1,252,365

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,			
		2008		2007
Revenues:				
Asset management, administration and distribution fees		$ 243,162		$ 280,287
Information processing and software servicing fees		56,577		58,485
Transaction-based and trade execution fees		16,347		10,864
Total revenues		316,086		349,636
Expenses:				
Commissions and fees		42,336		44,184
Compensation, benefits and other personnel		80,932		88,463
Consulting, outsourcing and professional fees		26,213		23,703
Data processing and computer related		11,325		10,410
Facilities, supplies and other costs		18,656		16,607
Depreciation and amortization		11,675		10,991
Total expenses		191,137		194,358
Income from operations		124,949		155,278
Net loss from investments		(42,047)		(202)
Interest and dividend income		3,384		4,381
Interest expense		(903)		(1,267)
Minority interest		(31,078)		(46,463)
Net income before income taxes		54,305		111,727
Income taxes		19,810		38,428
Net income		34,495		73,299
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments		(7,641)		1,581
Unrealized holding (loss) gain on investments:				
Unrealized holding (losses) gains during the period net of income tax benefit (expense) of $755 and $(11)	(1,263)		84	
Less: reclassification adjustment for losses realized in net income, net of income tax benefit of $469 and $36	783	(480)	62	146
Other comprehensive (loss) income		(8,121)		1,727
Comprehensive income		$ 26,374		$ 75,026
Basic earnings per common share		$ .18		$ .38
Diluted earnings per common share		$ .18		$ .37

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)

	Nine Months Ended September 30,			
		2008		**2007**
Revenues:				
Asset management, administration and distribution fees		$ 764,152		$ 813,338
Information processing and software servicing fees		173,804		168,131
Transaction-based and trade execution fees		41,561		34,150
Total revenues		979,517		1,015,619
Expenses:				
Commissions and fees		130,676		129,857
Compensation, benefits and other personnel		248,353		261,293
Consulting, outsourcing and professional fees		79,581		67,199
Data processing and computer related		33,102		31,404
Facilities, supplies and other costs		54,458		51,867
Depreciation and amortization		34,693		25,867
Total expenses		580,863		567,487
Income from operations		398,654		448,132
Net loss from investments		(93,387)		(1,515)
Interest and dividend income		10,745		13,314
Interest expense		(2,678)		(3,696)
Minority interest		(107,837)		(134,439)
Other				2,952
Net income before income taxes		205,497		324,748
Income taxes		75,892		118,571
Net income		129,605		206,177
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments		(10,625)		3,906
Unrealized holding (loss) gain on investments:				
Unrealized holding (losses) gains during the period net of income tax benefit (expense) of $1,343 and $(383)	(2,271)		510	
Less: reclassification adjustment for losses realized in net income, net of income tax benefit of $74 and $34	112	(2,159)	60	570
Other comprehensive (loss) income		(12,784)		4,476
Comprehensive income		$ 116,821		$ 210,654
Basic earnings per common share		$ .67		$ 1.05
Diluted earnings per common share		$ .66		$ 1.02
Dividends declared per common share		$ .08		$ .07

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

SEI Investments Company

Consolidated Statements of Cash Flows

(unaudited)

(In thousands)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 129,605	$ 206,177
Adjustments to reconcile net income to net cash provided by operating activities	80,675	59,725
Net cash provided by operating activities	210,280	265,902
Cash flows from investing activities:		
Additions to restricted cash	(24,000)	
Additions to property and equipment	(23,726)	(22,360)
Additions to capitalized software	(39,470)	(50,126)
Purchase of marketable securities	(55,207)	(31,776)
Sale of marketable securities	29,629	26,747
Maturities of marketable securities	17,000	
Cash received from sale of joint venture		3,116
Other		(231)
Net cash used in investing activities	(95,774)	(74,630)
Cash flows from financing activities:		
Payments on long-term debt	(15,148)	(22,695)
Purchase and retirement of common stock	(111,169)	(183,856)
Proceeds from issuance of common stock	20,341	35,170
Tax benefit on stock options exercised	5,285	16,038
Payment of dividends	(28,946)	(25,683)
Net cash used in financing activities	(129,637)	(181,026)
Net (decrease) increase in cash and cash equivalents	(15,131)	10,246
Cash and cash equivalents, beginning of period	360,921	286,948
Cash and cash equivalents, end of period	$ 345,790	$ 297,194

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 affluent 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, hedge funds, fund of 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2007. 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 September 30, 2008, the results of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine month periods ended September 30, 2008 and 2007. 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, 2007.

Except as disclosed herein, there have been no significant changes in significant accounting policies during the nine months ended September 30, 2008 as compared to the significant accounting policies described in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Cash and Cash Equivalents

Cash and cash equivalents includes $191,056 and $185,536 at September 30, 2008 and December 31, 2007, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds. Cash and cash equivalents also includes $74,402 and $82,374 at September 30, 2008 and December 31, 2007, respectively, from LSV, of which the Company has a 43 percent partnership interest (See Note 2).

Restricted Cash

Restricted cash at September 30, 2008 and December 31, 2007 includes $11,000 and $10,000, 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 and $250 segregated for regulatory purposes related to trade-execution services conducted by our subsidiary located in the United Kingdom. Restricted cash at September 30, 2008 also includes $23,000 segregated for the benefit of certain SEI-sponsored money market mutual funds according to the provisions of the Capital Support Agreements (See Note 7).

Capitalized Software

The Company capitalized $39,470 and $50,126 of software development costs during the nine months ended September 30, 2008 and 2007, respectively. As of September 30, 2008, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 13.6 years. Amortization expense related to capitalized software was $12,704 and $5,497 during the nine months ended September 30, 2008 and 2007, respectively.

The Company placed the initial version of the Global Wealth Platform into service in July 2007. Enhancements to expand the functionality of the platform were implemented in October 2007 and April 2008. The total amount of capitalized software development costs related to the platform placed into service and being amortized as of September 30, 2008 was $219,775. The Global Wealth Platform has an estimated useful life of 15 years. Amortization expense related to the platform during the nine months ended September 30, 2008 was $10,979.

Fair Value of Financial Instruments

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 was effective for the Company on January 1, 2008. The Company elected not to apply the fair value option to any of its financial instruments on the date the standard became effective and, therefore, SFAS 159 had no impact on its consolidated financial position, results of operations or cash flows. The Company may elect to apply the fair value option to any financial instruments acquired after the effective date of SFAS 159.

In September 2006, the 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. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 was effective for the Company on January 1, 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). In October 2008, the FASB issued FSP FAS 157-3 which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. SFAS 157 becomes effective for all nonfinancial assets and liabilities for periods beginning after November 15, 2008, which will be the Company s first quarter of fiscal 2009. The Company has adopted SFAS 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for financial 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 September 30, 2008 and 2007 are:

	For the Three Month Period Ended September 30, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 34,495	191,554	$ .18
Dilutive effect of stock options		3,142	
Diluted earnings per common share	$ 34,495	194,696	$ .18

	For the Three Month Period Ended September 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 73,299	194,930	$ .38
Dilutive effect of stock options		5,391	
Diluted earnings per common share	$ 73,299	200,321	$ .37

Employee stock options to purchase 9,226,000 and 3,468,000 shares of common stock, with an average exercise price of $27.57 and $29.62, were outstanding during the three month periods ended September 30, 2008 and 2007, 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.

The calculations of basic and diluted earnings per share for the nine months ended September 30, 2008 and 2007 are:

	For the Nine Month Period Ended September 30, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 129,605	192,457	$ .67
Dilutive effect of stock options		3,843	
Diluted earnings per common share	$ 129,605	196,300	$ .66

	For the Nine Month Period Ended September 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 206,177	196,720	$ 1.05
Dilutive effect of stock options		6,155	
Diluted earnings per common share	$ 206,177	202,875	$ 1.02

Employee stock options to purchase 9,226,000 and 3,456,000 shares of common stock, with an average exercise price of $27.57 and $29.64, were outstanding during the nine month periods ended September 30, 2008 and 2007, respectively, but not included in the computation of diluted earnings per common share because the exercise price of the options 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.

Comprehensive Income

Accumulated other comprehensive income (loss) consist of:

	Foreign Currency Translation Adjustments	Unrealized Holding Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss)
Beginning balance (Dec. 31, 2007)	$ 9,174	$ 816	$ 9,990
Current period change	(10,625)	(2,159)	(12,784)
Ending balance (September 30, 2008)	$ (1,451)	$ (1,343)	$ (2,794)

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:

	2008	2007
Net income	$ 129,605	$ 206,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,693	25,867
Undistributed earnings of minority interests	107,837	134,439
Payments to partners of LSV	(108,139)	(104,410)
Stock-based compensation	12,956	20,460
Gain on sale of joint venture		(2,952)
Provision for losses on receivables	(76)	155
Deferred income tax expense	(25,460)	5,913
Net realized losses on investments	6,086	1,515
Currency translation adjustments	(10,625)	3,906
Change in other long-term liabilities	126	11,910
Other	(5,649)	(4,691)
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from regulated investment companies	3,151	(7,210)
Receivables	16,825	(37,762)
Other current assets	(706)	4,906
Increase (decrease) in		
Accounts payable	3,357	5,499
Capital Support Agreements	87,301	
Payable to regulated investment companies	161	1,311
Accrued liabilities	(40,732)	628
Deferred revenue	(431)	241
Total adjustments	80,675	59,725
Net cash provided by operating activities	$ 210,280	$ 265,902

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), Business Combinations and SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51. SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be re-characterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 will become effective for the Company beginning in the first quarter of fiscal 2009. Early adoption is not permitted. The Company is currently evaluating the impact that SFAS 141R and SFAS 160 will have on its consolidated financial statements.

In March 2008, the FASB issued FASB Statement No. 161 (SFAS 161), Disclosures about Derivative Instruments and Hedging Activities. SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that SFAS 161 will have on its consolidated financial statements.

In April 2008, the FASB issued FSP 142-3 (FSP 142-3), Determination of the Useful Life of Intangible Assets. FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 (SFAS 142), Goodwill and Other Intangible Assets. The intent of this new guidance is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under other accounting pronouncements. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The Company is currently evaluating the impact, if any, that FSP 142-3 will have on its consolidated financial statements.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4 (FSP 133-1 and FIN 45-4), Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 that introduces new disclosure requirements for credit derivatives and guarantees and clarifies the effective date of SFAS 161. The new disclosure requirements are designed to result in similar disclosures for financial instruments with similar risks and rewards relating to credit risk, regardless of their legal form. The provisions of FSP 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that FSP 133-1 and FIN 45-4 will have on its consolidated financial statements.

Note 2. LSV and LSV Employee Group

The Company has an investment in the general partnership 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 2007 and 2008. 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.

In January 2006, 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 provided 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.

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 Minority interest. Assuming no other changes in the Company s relationship with LSV and LSV Employee Group, the Company would no longer be required to consolidate the assets, liabilities and operations of LSV and LSV Employee Group after the LSV Employee Group Term Loan is paid in full. Additionally, the Company may not be required to consolidate LSV and LSV Employee Group if the Company s percentage of direct ownership in LSV decreases to certain levels.

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 $5,416 in amortization expense during the nine months ended September 30, 2008 and 2007, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statements of Operations. Amortization expense recognized in the Consolidated Statements of Operations associated with the assets of LSV Employee Group was eliminated through Minority interest and had no impact on net income.

	September 30, 2008	December 31, 2007
Intangible asset, at cost	$ 72,220	$ 72,220
Accumulated amortization	(19,860)	(14,444)
Net book value	$ 52,360	$ 57,776

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 was $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 September 30, 2008, the remaining unpaid principal balance of the term loan was $36,823 of which $7,200 is classified as current and included in Current portion of long-term debt and the remaining $29,623 is included in Long-term debt on the accompanying Consolidated Balance Sheets. LSV Employee Group made principal payments of $15,148 and $13,695 during the nine months ended September 30, 2008 and 2007, respectively. Interest expense for the nine months ended September 30, 2008 and 2007 on the Consolidated Statements of Operations includes $1,930 and $2,962, respectively, in interest costs associated with the borrowings of LSV Employee Group which was eliminated through Minority interest and had no impact on net income.

LSV Employee Group made a principal payment of $5,274 in October 2008. The remaining unpaid principal balance of the term loan at October 31, 2008 was $31,549. The Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group.

The fair value of LSV Employee Group s long-term debt is approximately $2,853 in excess of the carrying amount 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. These swaps have a total notional value of $33,392. Payments are made every 90 days and the termination dates of the swaps are March 2009 and January 2011. The net effect from the interest rate swaps on the Company s earnings 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 asset 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 $327 of amortization expense during the nine months ended September 30, 2008 and 2007, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statements of Operations.

	September 30, 2008	December 31, 2007
Intangible asset, at cost	$ 3,821	$ 3,821
Accumulated amortization	(1,747)	(1,420)
Net book value	$ 2,074	$ 2,401

Note 4. Composition of Certain Financial Statement Captions

<u>Receivables</u>

Receivables on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2008	December 31, 2007
Trade receivables	$ 54,494	$ 49,852
Fees earned, not billed	164,690	186,157
Other receivables	2,501	3,934
	221,685	239,943
Less: Allowance for doubtful accounts	(2,956)	(3,032)
	$ 218,729	$ 236,911

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:

	September 30, 2008	December 31, 2007
Buildings	$ 128,604	$ 128,296
Equipment	64,414	62,272
Land	9,695	9,548
Purchased software	58,029	43,580
Furniture and fixtures	18,526	19,603
Leasehold improvements	5,850	6,357
Construction in progress	2,585	451
	287,703	270,107
Less: Accumulated depreciation and amortization	(136,968)	(126,591)
Property and Equipment, net	$ 150,735	$ 143,516

The Company recognized $16,100 and $14,418 in depreciation and amortization expense related to property and equipment for the nine months ended September 30, 2008 and 2007, respectively.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2008	December 31, 2007
Accrued compensation	$ 44,269	$ 74,509
Accrued distribution fees	16,599	16,040
Accrued consulting	10,089	11,065
Accrued sub-advisor and investment officer fees	11,420	16,026
Other accrued liabilities	52,085	69,262
Total accrued liabilities	$ 134,462	$ 186,902

Accrued sub-advisor and investment officer fees relates to services provided by fund advisors to SEI-sponsored mutual funds and other investment programs.

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 SEI-sponsored mutual funds 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 U.S. Treasury securities and U.S. government agency mortgage-backed debt securities 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 securities issued by structured investment vehicles (SIVs) (See Notes 6 and 7). The Company elected the fair value option under SFAS 159 to value 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 fair value of securities issued by SIVs has been greatly affected by recent liquidity issues surrounding collateralized debt obligations and asset backed securities. Market price quotes may not be readily available for some positions. The Company values the securities issued by SIVs using a net asset value approach, which considers the value of the underlying assets. The underlying assets are valued using external pricing services that incorporate market information, where available, or through the use of matrix pricing or other acceptable measures. Securities which lack market information are grouped by sector and valued by utilizing the most recent quoted price of the underlying asset and adjusting that price by the percentage change in the respective sector using indices or other relative benchmarks.

The fair value of the Capital Support Agreements is determined through the use of an option pricing model designed for credit default swaps. The value is primarily affected by assumptions pertaining to the underlying assets, mainly default percentages and recovery rates specific to each security covered by the Capital Support Agreement.

The fair value of certain financial assets and liabilities of the Company was determined using the following inputs at September 30, 2008:

		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	$ 20,904	$ 20,904	$	$