SEI INVESTMENTS CO
Form 10-Q
May 03, 2007

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, 2007 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 is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 30, 2007: 99,113,174 shares of common stock, par value $.01 per share.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

SEI Investments Company

Consolidated Balance Sheets

(unaudited)

(In thousands)

	March 31, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 271,485	$ 286,948
Restricted cash	10,250	10,250
Receivables from regulated investment companies	36,586	37,600
Receivables, net of allowance for doubtful accounts of $2,853 and $2,730 (Note 4)	214,283	206,999
Securities owned	16,558	16,431
Deferred income taxes	17,514	15,931
Other current assets	12,779	12,314
Total Current Assets	579,455	586,473
Property and Equipment, net of accumulated depreciation and amortization of $117,598 and $113,177 (Note 4)	134,435	130,732
Capitalized Software, net of accumulated amortization of $25,996 and $25,235	197,044	180,014
Investments Available for Sale	75,560	71,690
Investments Held to Maturity	4,553	4,617
Goodwill (Notes 2 and 3)	22,842	22,842
Intangible Assets, net of accumulated amortization of $10,119 and $8,205 (Notes 2 and 3)	65,922	67,836
Other Assets	16,903	15,501
Total Assets	$ 1,096,714	$ 1,079,705

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, 2007	December 31, 2006
Liabilities and Shareholders Equity		
Current Liabilities:		
Current portion of long-term debt	$ 9,800	$ 13,100
Accounts payable	10,898	7,119
Payable to regulated investment companies		258
Accrued liabilities (Note 4)	127,354	175,044
Deferred revenue	303	606
Total Current Liabilities	148,355	196,127
Long-term Debt	62,719	67,538
Deferred Income Taxes	79,871	76,148
Minority Interest	117,269	109,380
Other Long-term Liabilities (Note 12)	10,091	
Commitments and Contingencies (Note 10)		
Shareholders Equity:		
Common stock, $.01 par value, 750,000 shares authorized; 98,813 and 98,953 shares issued and outstanding	988	990
Capital in excess of par value	390,596	363,815
Retained earnings	278,892	258,069
Accumulated other comprehensive income, net	7,933	7,638
Total Shareholders Equity	678,409	630,512
Total Liabilities and Shareholders Equity	$ 1,096,714	$ 1,079,705

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, 2007		2006
Revenues:				
Asset management, administration and distribution fees		$ 256,398		$ 213,712
Information processing and software servicing fees		54,232		50,246
Transaction-based and trade execution fees		12,095		13,175
Total revenues		322,725		277,133
Expenses:				
Commissions and fees		42,637		35,638
Compensation, benefits and other personnel		84,278		75,679
Consulting, outsourcing and professional fees		20,879		18,078
Data processing and computer related		10,767		8,598
Facilities, supplies and other costs		17,560		15,035
Depreciation and amortization		7,425		7,254
Total expenses		183,546		160,282
Income from operations		139,179		116,851
Net loss from investments		(316)		(242)
Interest and dividend income		4,051		2,654
Interest expense		(1,261)		(1,155)
Minority interest		(40,734)		(32,956)
Other				1,588
Net income before income taxes		100,919		86,740
Income taxes		37,542		31,834
Net income		63,377		54,906
Other comprehensive income, net of tax:				
Foreign currency translation adjustments		(166)		599
Unrealized holding gain (loss) on investments:				
Unrealized holding gains (losses) during the period net of income tax (expense) benefit of $(368) and $227	461		(393)	
Less: reclassification adjustment for losses realized in net income, net of income tax benefit of $88		461	156	(237)
Other comprehensive income		295		362
Comprehensive income		$ 63,672		$ 55,268
Basic earnings per common share		$ .64		$ .56
Diluted earnings per common share		$ .62		$ .54

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,	
	2007	**2006**
Cash flows from operating activities:		
Net income	$ 63,377	$ 54,906
Adjustments to reconcile net income to net cash provided by operating activities	(4,668)	45,503
Net cash provided by operating activities	58,709	100,409
Cash flows from investing activities:		
Additions to property and equipment	(8,399)	(5,557)
Additions to capitalized software	(17,791)	(19,365)
Purchase of marketable securities	(3,419)	(142)
Sale of marketable securities	65	1,073
Cash received from consolidation of LSV		5,268
Net cash used in investing activities	(29,544)	(18,723)
Cash flows from financing activities:		
Payments on long-term debt	(8,119)	(5,389)
Purchase and retirement of common stock	(47,631)	(31,944)
Proceeds from issuance of common stock	15,271	4,395
Tax benefit on stock options exercised	7,732	4,942
Payment of dividends	(11,881)	(10,859)
Net cash used in financing activities	(44,628)	(38,855)
Net (decrease) increase in cash and cash equivalents	(15,463)	42,831
Cash and cash equivalents, beginning of period	286,948	130,128
Cash and cash equivalents, end of period	$ 271,485	$ 172,959

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 Company-sponsored 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.

Effective January 1, 2007, the Company changed the names of three of its business segments. The Private Banking and Trust business segment was renamed as Private Banks, the Enterprises business segment was renamed as Institutional Investors, and the Money Managers business segment was renamed as Investment Managers. Additionally, the structure of two of the Company s business segments changed on January 1, 2007. The investment management programs and services offered to global private banks of the Investments in New Businesses segment was moved to the Private Banks segment. Further information pertaining to the Company s new business segments is included in Note 11.

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, 2006. 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, 2007, the results of operations for the three months ended March 31, 2007 and 2006, and cash flows for the three month periods ended March 31, 2007 and 2006. 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, 2006.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries and entities in which it holds a controlling financial interest. The Company determines whether it has a controlling financial interest either by its decision-making ability through voting interests in accordance with Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries, or by the extent of the Company s participation in the economic risks and rewards of the entity through variable interests pursuant to the revised interpretation of

Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. The Company provides for minority interests in consolidated entities for which the Company s controlling financial interest is less than 100 percent. The Company s principal subsidiaries are SEI Investments Distribution Co. (SIDCO), SEI Investments Management Corporation (SIMC), and SEI Private Trust Company (SPTC). All intercompany accounts and transactions have been eliminated.

Beginning in January 2006, the Company consolidated the assets, liabilities and operations of LSV and LSV Employee Group in its Consolidated Financial Statements (See Note 2). The Company s percentage of direct ownership in LSV was approximately 43 percent during 2006 and 2007. The amount of ownership of the other existing partners, approximately 57 percent, of LSV is included in Minority interest. The Company does not have any ownership interest in LSV Employee Group.

Management s Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company s principal sources of revenues are: (1) asset management, administration and distribution fees earned based upon a contractual percentage of net assets under management or administration; (2) information processing and software servicing fees that are either recurring and primarily earned based upon the number of trust accounts being serviced or non-recurring and based upon project-oriented contractual agreements related to client implementations; and (3) transaction-based fees for providing securities valuation and trade-execution services. The majority of the Company s revenues are based on contractual arrangements. Revenues are recognized in the periods in which the related services are performed provided that persuasive evidence of an agreement exists, the fee is fixed or determinable, and collectibility is reasonably assured. Cash received by the Company in advance of the performance of services is deferred and recognized as revenue when earned. Reimbursements received for out-of-pocket expenses incurred are recorded as revenue. Certain portions of the Company s revenues require management s consideration of the nature of the client relationship in determining whether to recognize as revenue the gross amount billed or net amount retained after payments are made to vendors for certain services related to the product or service offering.

Cash and Cash Equivalents

The Company considers investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents includes $90,720 and $110,663 at March 31, 2007 and December 31, 2006, respectively, primarily invested in Company-sponsored open-ended money market mutual funds.

Restricted Cash

Restricted cash at March 31, 2007 and December 31, 2006 includes $10,000 segregated in special reserve accounts for the benefit of SIDCO customers 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.

Allowances for Doubtful Accounts

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company s estimate is based on historical collection experience and a review of the current status of trade accounts receivable.

Concentration of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of cash equivalents, marketable securities, and trade receivables. Cash equivalents are principally invested in short-term money market funds or placed with major banks and high-credit qualified financial institutions. Cash deposits maintained with institutions are in excess of federally insured limits. Marketable securities primarily consist of a regulated investment company with underlying investments in federal agency mortgage-backed securities and a diversified equity

investment vehicle. Concentrations of credit risk with respect to our receivables are limited due to the large number of clients and their dispersion across geographic areas. No single group or customer represents greater than ten percent of total accounts receivable.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives using the straight line method for financial statement purposes. No provision for depreciation is made for construction in progress until such time as the relevant assets are completed and put into service. The Company uses other depreciation methods, generally accelerated, for tax purposes where appropriate. Buildings and building improvements are depreciated over 25 to 39 years. Equipment, purchased software and furniture and fixtures have useful lives ranging from three to five years. Amortization of leasehold improvements is computed using the straight line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Marketable Securities

The Company s non-broker-dealer subsidiaries account for investments in marketable securities pursuant to Statement of Financial Accounting Standards No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Management determines the appropriate classification of investments in marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are classified as either short or long-term based on the relevant contractual maturity date and are stated at amortized cost. Debt and equity securities classified as available-for-sale are reported at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized holding gains and losses, net of income taxes, are reported as a separate component of comprehensive income. SIDCO, the Company s broker-dealer subsidiary, reports changes in fair value of marketable securities through current period earnings due to specialized accounting practices related to broker-dealers in securities. The specific identification method is used to compute the realized gains and losses on all of the Company s marketable securities (See Note 5).

The Company evaluates the realizable value of its marketable securities on a quarterly basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. Factors considered in determining other-than-temporary declines in value include the duration and extent to which the fair value has been less than the carrying value; the ability of the investment to recover to its original cost, and the Company s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Derivative Instruments and Hedging Activities

The Company holds derivative financial instruments (derivatives) in the form of equity contracts for the purpose of hedging the market risk of certain available-for-sale securities. The Company holds such derivatives only for the purpose of hedging such risk and not for speculation. The Company formally documents its risk management objective and strategy for undertaking such hedge transactions. This process includes relating all derivatives that are designated as fair value hedges to specific assets on the balance sheet.

The Company accounts for its derivatives in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133, and Statement of Financial Accounting Standards No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The Company records all derivatives on its balance sheet at fair value. The Company determines if the instrument qualifies as an effective fair value hedge on the date the derivative is entered into and monitors this determination on an ongoing basis. If the derivative instrument qualifies as an effective fair value hedge according to established accounting guidance, the

Company will apply hedge accounting. As of March 31, 2007, hedge accounting does not apply to any of the Company s derivatives.

The Company enters into economic hedging relationships such that the change in the fair value of the asset being hedged is expected to be offset by a counteracting change in the fair value of the derivative instrument. The change in the fair value of the derivative is recognized immediately in current period earnings, while the change in the fair value of the hedged asset is recorded in other comprehensive income. The Company may continue to enter into economic hedges to support certain business strategies. These economic hedges may not qualify as accounting hedges and, therefore, may cause some volatility in earnings.

The Company holds equity derivatives with a notional amount of $11,561 and an expected maturity date in 2007. Additionally, LSV Employee Group entered into two interest rate swap agreements in 2006 to convert its floating rate long-term debt to fixed rate debt. These swaps have a total notional value of $50,203. 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. The Company recognized net losses of $445 and $465 in the three month periods ended March 31, 2007 and 2006, respectively, from changes in the fair value of derivative instruments. These losses are reflected in Net loss from investments on the accompanying Consolidated Statements of Operations.

Capitalized Software

The Company accounts for software development costs in accordance with the guidance established in Statement of Position 98-1 (SOP 98-1) Accounting for the Cost of Computer Software Developed or Obtained for Internal Use, for development costs associated with software products to be provided in a hosting environment. As required by SOP 98-1, the Company capitalizes the costs incurred during the application development stage, which includes direct external and internal costs to design the software configuration and interfaces, coding, installation, and testing. Costs incurred during the preliminary project along with post-implementation stages are expensed as incurred. Costs incurred to maintain existing product offerings are expensed as incurred. The capitalization and ongoing assessment of recoverability of software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life. The Company capitalized $17,791 and $19,365 of software development costs in accordance with SOP 98-1 during the three months ended March 31, 2007 and 2006, respectively.

Amortization of capitalized software development costs begins when the product is placed into service. Capitalized software development costs are amortized on a product-by-product basis using the straight-line method over the estimated economic life of the product or enhancement, which is primarily two to ten years, with a weighted average remaining life of approximately 7.3 years. Amortization expense was $761 and $1,274 during the three months ended March 31, 2007 and 2006, respectively.

In the first quarter of 2006, the Company determined that software purchased from third party vendors that was capitalized as part of the development of a new platform did not satisfy all of the expected functionality requirements. As a result, the Company wrote-off $625 of previously capitalized software development costs and recorded the amount of the write-off as a charge against earnings in the first quarter of 2006. There were no capitalized software development costs written off in the first quarter of 2007.

Goodwill and Other Intangible Asset

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets. Goodwill is not amortized but is reviewed for impairment annually or more frequently if facts and circumstances warrant a review. The provisions of SFAS 142 require that a two-step test be performed to assess goodwill for impairment. In the first step, the fair value of each reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit s goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, an impairment loss equal to the difference is recorded.

SFAS 142 also requires that intangible assets with definite lives be amortized over their estimated useful life and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets. The Company is amortizing its intangible assets on a straight-line basis over eight and a half to ten years (See Notes 2 and 3).

Income Taxes

The Company applies the asset and liability approach to account for income taxes pursuant to Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

The Company adopted the FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The adoption of FIN 48 did not have a material impact on the Company s financial position or results of operations (See Note 12).

Foreign Currency Translation

The assets and liabilities and results of operations of the Company s foreign subsidiaries are measured using the foreign subsidiary s local currency as the functional currency. Assets and liabilities have been translated into U.S. dollars using the rates of exchange at the respective balance sheet dates. The results of operations have been translated into U.S. dollars at average exchange rates prevailing during the period. The resulting translation gain and loss adjustments are recorded as a separate component of comprehensive income. Transaction gains and losses that arise from exchange rate fluctuations are included in the results of operations in the periods in which they occur.

Fair Value of Financial Instruments

The book value of current assets and current liabilities is considered to be representative of their fair value because of their short maturities. Held-to-maturity securities are stated at amortized cost, which approximates fair value. The book value of long-term debt is considered to be representative of its fair value based upon an estimation using borrowing rates currently available to the Company for bank loans with similar terms and maturities. The recorded value of these items approximates their fair value at March 31, 2007.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), Share-Based Payment. SFAS 123(R) replaced Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, and superseded Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Under the fair value recognition provisions of SFAS 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The valuation provisions of SFAS 123(R) apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro-forma disclosures (See Note 8).

Earnings per Share

The Company calculates earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share. Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is computed by dividing net income available to common shareholders by the combination of the weighted average number of common shares outstanding and the dilutive potential common shares, such as stock options, outstanding during the period. The calculations of basic and diluted earnings per share for the three months ended March 31, 2007 and 2006 are:

	For the Three Month Period Ended March 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 63,377	98,957	$ .64
Dilutive effect of stock options		3,394	
Diluted earnings per common share	$ 63,377	102,351	$ .62

	For the Three Month Period Ended March 31, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 54,906	98,758	$ .56
Dilutive effect of stock options		2,553	
Diluted earnings per common share	$ 54,906	101,311	$ .54

Employee stock options to purchase 1,806,000 and 6,705,000 shares of common stock, with an average exercise price of $59.04 and $42.56, were outstanding during the three month periods ended March 31, 2007 and 2006, 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

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income establishes standards for the reporting and presentation of comprehensive income and its components. Comprehensive income consists of net income and other gains and losses affecting shareholders equity that are excluded from net income. For the Company, comprehensive income included unrealized gains and losses on marketable securities and foreign currency translation. Components of Accumulated other comprehensive income consist of:

	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Investments	Accumulated Other Comprehensive Gains
Beginning balance (Dec. 31, 2006)	$ 6,446	$ 1,192	$ 7,638
Current period change	(166)	461	295
Ending balance (March 31, 2007)	$ 6,280	$ 1,653	$ 7,933

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:

	2007	2006
Net income	$ 63,377	$ 54,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,425	7,254
Distribution from unconsolidated affiliate		16,940
Undistributed earnings of minority interests	40,734	32,956
Payments to partners of LSV	(32,322)	
Stock-based compensation	6,517	4,487
Gain on partial sale of unconsolidated affiliate		(267)
Provision for losses on receivables	121	655
Deferred income tax expense	1,772	4,724
Net realized losses on investments	316	242
Write-off of capitalized software		625
Change in other long-term liabilities	10,091	
Other	(2,211)	(1,570)
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from regulated investment companies	1,014	(1,351)
Receivables	(7,405)	(5,647)
Other current assets	(465)	(1,438)
Increase (decrease) in		
Accounts payable	3,779	1,588
Payable to regulated investment companies	(258)	(186)
Accrued liabilities	(33,473)	(13,693)
Deferred revenue	(303)	184
Total adjustments	(4,668)	45,503
Net cash provided by operating activities	$ 58,709	$ 100,409

Supplemental disclosures of cash paid/received during the three months ended March 31 are as follows:

	2007	2006
Interest paid	$ 1,533	$ 643
Interest and dividends received	4,295	2,555
Income taxes paid	7,848	2,428

The following non-cash activities are excluded from the Consolidated Statements of Cash Flows for the three months ended March 31, 2006. LSV Employee Group purchased a percentage of LSV from two existing partners for a total purchase price of $92,000. LSV Employee Group contributed $9,200 and borrowed the remaining $82,800 (See Note 2).

New Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on its financial statements.

In February 2007, the FASB issued FASB Statement 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 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that SFAS 159 will have on its financial statements.

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, a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies. LSV is currently an investment sub-adviser for a number of Company-sponsored mutual funds. The Company s total partnership interest in LSV was approximately 43 percent during 2006 and 2007. LSV Employee Group is owned by several current employees of LSV and was formed in January 2006 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, 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 consolidated the assets, liabilities and operations of LSV and LSV Employee Group in its Consolidated Financial Statements beginning in January 2006. 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.

In accordance with the terms of the Assignment and Purchase Agreement (the Purchase Agreement), LSV Employee Group only receives their percentage interest in the future earnings of LSV from the date of the Purchase Agreement and did not acquire any right to any of the sellers remaining undistributed earnings of LSV. Initially, the Company determined that the entire purchase price of $92,000 was goodwill. In late 2006, the Company revised its determination and allocated a portion of the total purchase price to identifiable intangible assets that require recognition apart from goodwill. The Company determined that $72,220 related to those 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 first quarter of 2007 and 2006, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statement of Operations. The amount of amortization expense in the first quarter of 2006 was revised for the identification of intangible assets. Amortization expense recognized in the Consolidated Statement of Operations associated with the assets of LSV Employee Group was eliminated through Minority interest and had no impact on net income.

	March 31, 2007	December 31, 2006
Intangible asset, at cost	$ 72,220	$ 72,220
Accumulated amortization	(9,027)	(7,222)
Net book value	$ 63,193	$ 64,998

LSV Employee Group Term Loan

In order to finance a portion of the purchase price, LSV Employee Group obtained financing from 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, 2007, the remaining unpaid principal balance of the term loan was $67,519, of which $8,800 is classified as current and included in Current portion of long-term debt and the remaining $58,719 is included in Long-term debt on the accompanying Consolidated Balance Sheets. LSV Employee Group made a principal payment of $4,120 during the first quarter 2007. Interest expense for the three months ended March 31, 2007 and 2006 on the Consolidated Statements of Operations includes $1,051 and $850, 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 $4,897 in April 2007. The remaining unpaid principal balance of the term loan at April 30, 2007 was $62,622. The Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group.

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 2006 and 2007, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statements of Operations.

	March 31, 2007	December 31, 2006
Intangible asset, at cost	$ 3,821	$ 3,821
Accumulated amortization	(1,092)	(983)
Net book value	$ 2,729	$ 2,838

Note 4. Composition of Certain Financial Statement Captions

Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	March 31, 2007	December 31, 2006
Trade receivables	$ 50,440	$ 45,242
Fees earned, not billed	163,412	154,378
Other receivables	3,284	10,109
	217,136	209,729
Less: Allowance for doubtful accounts	(2,853)	(2,730)
	$ 214,283	$ 206,999

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 the Company.

Property and Equipment

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

	March 31, 2007	December 31, 2006
Equipment	$ 58,874	$ 57,746
Buildings	114,965	98,615
Land	9,517	9,510
Purchased software	39,424	38,564
Furniture and fixtures	19,004	18,563
Leasehold improvements	5,279	5,144
Construction in progress	4,970	15,767
	252,033	243,909
Less: Accumulated depreciation and amortization	(117,598)	(113,177)
Property and Equipment, net	$ 134,435	$ 130,732

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	March 31, 2007	December 31, 2006
Accrued income taxes	$ 25,403	$ 15,057
Accrued compensation	22,363	68,657
Accrued consulting	14,118	10,782
Accrued sub-advisor and investment officer fees	12,566	12,314
Other accrued liabilities	52,904	68,234

Total accrued liabilities	$ 127,354	$ 175,044

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

Note 5. Marketable Securities

Investments Available for Sale

Investments available for sale of the Company s non-broker-dealer subsidiaries consist of:

	As of March 31, 2007			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Company-sponsored mutual funds	$ 61,623	$ 520	$	$ 62,143
Non-company-sponsored mutual funds	3,689	51		3,740
Equity securities	7,616	2,061		9,677
	$ 72,928	$ 2,632	$	$ 75,560

	As of December 31, 2006			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Company-sponsored mutual funds	$ 61,618	$ 268	$	$ 61,886
Non-company-sponsored mutual funds	208			208
Equity securities	8,061	1,535		9,596
	$ 69,887	$ 1,803	$	$ 71,690

The net unrealized holding gains at March 31, 2007 were $1,653 (net of income tax expense of $979) and at December 31, 2006 were $1,192 (net of income tax expense of $611) and are reported as a separate component of Accumulated other comprehensive gains on the accompanying Consolidated Balance Sheets.

During the three months ended March 31, 2006, the Company recognized gross realized gains from available-for-sale securities of $220. There were no realized gains recognized during the three months ended March 31, 2007. These gains are reflected in Net (loss) gain from investments on the accompanying Consolidated Statements of Operations. There were no realized losses recognized during the three months ended March 31, 2007 and 2006.

Held-to-Maturity Securities

At March 31, 2007 and December 31, 2006, the Company had investments in federal agency mortgage-backed securities. The Company acquired these securities in order to satisfy certain regulatory requirements associated with the operations of SPTC. The securities had a cost basis of $4,553 and $4,617 at March 31, 2007 and December 31, 2006 and are reported as Investments held to maturity on the accompanying Consolidated Balance Sheets. The recorded value of these securities approximates their fair value.

Securities Owned

At March 31, 2007 and December 31, 2006, the Company s broker-dealer subsidiary, SIDCO, had investments in U.S. Treasury securities 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 $16,558 and $16,431 at March 31, 2007 and December 31, 2006, respectively. The change in fair value recognized in the first quarter of 2007 was $127. The change in fair value recognized in the first quarter of 2006 was minimal.

Note 6. Lines of Credit

The Company has a three-year $200,000 Credit Agreement (the Credit Facility) which expires on September 14, 2007, at which time any aggregate principal amount of loans outstanding becomes payable in full. The Credit Facility contains various covenants, including, but not limited to, limitations of indebtedness, maintenance of fixed charge and leverage ratios, and restrictions on certain investments. None of these covenants negatively affect the Company s liquidity or capital resources. The Company was in compliance with all covenants associated with the Credit Facility during the three month period ended March 31, 2007. During the three month period ended March 31, 2007, the Company had no borrowings under the Credit Facility.

The Company s Canadian subsidiary has a credit facility agreement (the Canadian Credit Facility) for the purpose of facilitating the settlement of mutual fund transactions. The Canadian Credit Facility has no stated expiration date. The amount of the facility is generally limited to $2,000 Canadian dollars or the equivalent amount in U.S. dollars. The Canadian Credit Facility does not contain any covenants which restrict the liquidity or capital resources of the Company. The Company had no borrowings under the Canadian Credit Facility and was in compliance with all covenants during the three months ended March 31, 2007.

Note 7. Long-term Debt

In February 1997, the Company signed a Note Purchase Agreement authorizing the issuance and sale of $20,000 of 7.20 percent Senior Notes, Series A, and $15,000 of 7.27 percent Senior Notes, Series B (collectively, the Notes), in a private offering with certain financial institutions. The Note Purchase Agreement, which was subsequently amended, contains various covenants. Principal payments on the Notes are made annually from the date of issuance while interest payments are made semi-annually. The Company made its scheduled payment of $4,000 in February 2007 which included the final payment for the Series A Senior Notes. The remaining unpaid principal balance of the Notes at March 31, 2007 was $5,000, of which $1,000 is classified as current.

The Company s long-term debt includes the borrowings of LSV Employee Group (See Note 2).

Note 8. Stock-Based Compensation

The Company currently has one active equity compensation plan, the 1998 Equity Compensation Plan (the 1998 Plan), pursuant to which grants of stock may be made to employees, consultants and directors of the Company. The 1998 Plan provides for the grant of incentive stock options and non-qualified stock options, restricted stock, stock appreciation rights, and performance units. The Company s Board of Directors has reserved an aggregate 20,222,000 shares for grant under the 1998 Plan and has only granted non-qualified stock options. Stock options are granted with an exercise price equal to the fair market value of the Company s common stock on the date of grant and expire ten years from the date of grant. The Company maintains an on-going annual grant program under which all employees are eligible for consideration. Stock options granted have performance vesting conditions based on the attainment of certain earnings per share targets established at the date of grant. Earnings per share targets are calculated exclusive of stock-based compensation expense, net of tax. The first performance condition determines vesting of 50 percent of the options, and a second performance condition determines the vesting of the remaining 50 percent of the options. The performance conditions are measured annually on December 31. Options granted prior to 2006 also could vest in their entirety seven years from the date of grant. The Company believes that awarding stock options with performance-based vesting schedules better aligns the interests of stockholders and employees.

On April 3, 2007, the Company s Board of Directors approved the 2007 Equity Compensation Plan (the 2007 Plan), subject to the approval of the shareholders of the Company. If approved by the shareholders, the 2007 Plan would become effective June 1, 2007. The 2007 Plan provides for the grant of incentive stock options, non-qualified stock options and stock appreciation rights with respect to up to 10 million shares of common stock of the Company, subject to adjustment for stock splits, reclassifications, mergers and other events. Permitted grantees under the 2007 Plan include employees, non-employee directors and consultants who perform services for the Company and its subsidiaries. The plan will be administered by the Compensation Committee of the Board of

Directors of the Company. Upon effectiveness of the 2007 Plan, no further grants would be granted under the 1998 Plan.

The Company also maintains three additional equity compensation plans which have non-qualified stock options outstanding, but these plans have been terminated. The terminated plans are the Company Stock Option Plan, the 1997 Stock Option Plan, and the Non-employee Directors Plan. No options are available for grant from these terminated plans, and grants made under these plans continue in effect under the terms of the grant and the applicable plan. All of the Company s equity compensation plans are administered by the Company s Compensation Committee.

The Company recognized $6,517 ($4,193, or $.04 basic and diluted earnings per share, net of deferred tax benefit of $2,324) and $4,487 ($2,705, or $.03 basic and diluted earnings per share, net of deferred tax benefit of $1,782) of stock-based compensation expense in its Consolidated Financial Statements in the first quarter of 2007 and 2006, respectively. As of March 31, 2007, there was approximately $55,871 of unrecognized compensation cost remaining, adjusted for estimated forfeitures, related to unvested employee stock options. The Company estimates that compensation cost will be recognized according to the following schedule:

Period	Stock-Based Compensation Expense
Remainder of 2007	$ 18,700
2008	11,951
2009	11,716
2010	3,857
2011	3,857
2012	3,815
2013	1,975
	$ 55,871

The Company issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the first quarter of 2007 was $21,679. The total options outstanding as of March 31, 2007 was 13,965,000.

Note 9. Common Stock Buyback

The Company s Board of Directors has authorized the repurchase of the Company s common stock on the open market or through private transactions of up to an aggregate of $1,203,365, including an additional authorization on March 15, 2007 for $50,000. Through March 31, 2007, a total of 121,675,000 shares at an aggregate cost of $1,156,406 have been purchased and retired. The Company purchased 744,000 shares at a total cost of $45,296 during the three months ended March 31, 2007.

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.

Note 10. Commitments and Contingencies

Legal Proceedings

In the normal course of business, the Company is party to various claims and legal proceedings. On September 30, 2004, SIDCO was named as a defendant in a putative consolidated amended class action complaint filed in the United States District Court for the District of Maryland titled Stephen Carey v. Pilgrim Baxter & Associates, LTD, et. al. This complaint was purportedly made on behalf of all persons that purchased or held PBHG mutual funds during the period from November 1, 1998 to November 13, 2003 and related generally to various market timing practices allegedly permitted by the PBHG Funds. The complaint alleged that SIDCO was the named distributor/underwriter from

November 1998 until July 2001 for various PBHG funds in which market timing allegedly occurred during that period. In 2006, the plaintiffs submitted a proposed form of order dismissing SIDCO from the action, but the Court has not yet acted on the proposed order. The Company had not made any provision relating to this legal proceeding.

Note 11. Business Segment Information

The Company defines its business segments in accordance with Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information. SFAS 131 establishes standards for the way public business enterprises report financial information about business segments in financial statements. SFAS 131 also requires additional disclosures about product and services, geographic areas, and major customers. The accounting policies of the reportable business segments are the same as those described in Note 1.

Effective January 1, 2007, the Company changed the names of three of its business segments. The Private Banking & Trust business segment was renamed as Private Banks, the Enterprises business segment was renamed as Institutional Investors, and the Money Managers business segment was renamed as Investment Managers. Additionally, the structure of two of the Company s business segments changed on January 1, 2007. The investment management programs and services offered to global private banks of the Investments in New Businesses segment was moved to the Private Banks segment. For comparability, the prior period s results have been reclassified to reflect the realignment of the business segments.

The Company s reportable business segments are:

Private Banks provides investment processing and investment management programs to banks and trust institutions 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 and not-for-profit organizations worldwide;

Investment Managers provides investment processing and operational outsourcing solutions to investment managers, fund companies and banking institutions located in the United States and to investment managers worldwide of alternative asset classes such as hedge funds, fund of funds, and private equity funds;

Investments in New Businesses provides investment management programs to affluent families residing in the United States and Europe both directly and through the SEI Wealth Network®; and

LSV Asset Management is a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies.

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 months ended March 31, 2007 and 2006. Management evaluates Company assets on a consolidated basis during interim periods.

The following tables highlight certain unaudited financial information about each of the Company s business segments for the three months ended March 31, 2007 and 2006.

	Private Banks	Investment Advisors	Institutional Investors