

SEI INVESTMENTS CO
Form 10-Q
November 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)*

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 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
(State or other jurisdiction of

incorporation or organization)

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)

23-1707341
(IRS Employer

Identification Number)

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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 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 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

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 October 31, 2007: 194,347,384 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)*

	September 30, 2007	December 31, 2006
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 297,194	\$ 286,948
Restricted cash	10,250	10,250
Receivables from regulated investment companies	44,810	37,600
Receivables, net of allowance for doubtful accounts of \$2,885 and \$2,730 (Note 4)	237,997	206,999
Securities owned	16,456	16,431
Deferred income taxes	6,731	15,931
Other current assets	14,017	12,314
Total Current Assets	627,455	586,473
Property and Equipment, net of accumulated depreciation and amortization of \$127,273 and \$113,177 (Note 4)	138,508	130,732
Capitalized Software, net of accumulated amortization of \$30,732 and \$25,235	224,643	180,014
Investments Available for Sale	78,808	71,690
Investments Held to Maturity	3,700	4,617
Goodwill (Notes 2 and 3)	22,842	22,842
Intangible Assets, net of accumulated amortization of \$13,948 and \$8,205 (Notes 2 and 3)	62,093	67,836
Other Assets	17,632	15,501
Total Assets	\$ 1,175,681	\$ 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)*

	September 30, 2007	December 31, 2006
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 8,000	\$ 13,100
Accounts payable	12,618	7,119
Payable to regulated investment companies	1,569	258
Accrued liabilities (Note 4)	163,791	175,044
Deferred revenue	847	606
Total Current Liabilities	186,825	196,127
Long-term Debt	49,943	67,538
Deferred Income Taxes	73,278	76,148
Minority Interest	138,549	109,380
Other Long-term Liabilities (Note 11)	11,910	
<u>Commitments and Contingencies (Note 9)</u>		
Shareholders' Equity:		
Common stock, \$.01 par value, 750,000 shares authorized; 194,128 and 98,953 shares issued and outstanding	1,941	990
Capital in excess of par value	422,436	363,815
Retained earnings	278,685	258,069
Accumulated other comprehensive income, net	12,114	7,638
Total Shareholders' Equity	715,176	630,512
Total Liabilities and Shareholders' Equity	\$ 1,175,681	\$ 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 September 30, 2007	2006
Revenues:		
Asset management, administration and distribution fees	\$ 280,287	\$ 232,251
Information processing and software servicing fees	58,485	56,717
Transaction-based and trade execution fees	10,864	9,116
Total revenues	349,636	298,084
Expenses:		
Commissions and fees	44,184	36,487
Compensation, benefits and other personnel	88,463	80,900
Consulting, outsourcing and professional fees	23,703	19,061
Data processing and computer related	10,410	9,508
Facilities, supplies and other costs	16,607	18,050
Depreciation and amortization	10,991	7,319
Total expenses	194,358	171,325
Income from operations	155,278	126,759
Net loss from investments	(202)	(2,226)
Interest and dividend income	4,381	3,397
Interest expense	(1,267)	(1,475)
Minority interest	(46,463)	(37,731)
Net income before income taxes	111,727	88,724
Income taxes	38,428	28,175
Net income	73,299	60,549
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	1,581	333
Unrealized holding gain on investments:		
Unrealized holding gains during the period net of income tax expense of \$11 and \$324	84	675
Less: reclassification adjustment for losses realized in net income, net of income tax benefit of \$36 and \$761	62	1,632
	146	2,307
Other comprehensive income	1,727	2,640
Comprehensive income	\$ 75,026	\$ 63,189
Basic earnings per common share	\$.38	\$.31
Diluted earnings per common share	\$.37	\$.30

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, 2007	2006
Revenues:		
Asset management, administration and distribution fees	\$ 813,338	\$ 668,332
Information processing and software servicing fees	168,131	159,373
Transaction-based and trade execution fees	34,150	32,530
Total revenues	1,015,619	860,235
Expenses:		
Commissions and fees	129,857	107,898
Compensation, benefits and other personnel	261,293	231,374
Consulting, outsourcing and professional fees	67,199	56,926
Data processing and computer related	31,404	27,436
Facilities, supplies and other costs	51,867	52,985
Depreciation and amortization	25,867	21,849
Total expenses	567,487	498,468
Income from operations	448,132	361,767
Net loss from investments	(1,515)	(1,866)
Interest and dividend income	13,314	9,149
Interest expense	(3,696)	(4,078)
Minority interest	(134,439)	(105,858)
Other	2,952	1,588
Net income before income taxes	324,748	260,702
Income taxes	118,571	87,336
Net income	206,177	173,366
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	3,906	2,888
Unrealized holding gain on investments:		
Unrealized holding gains (losses) during the period net of income tax (expense) benefit of \$(383) and \$164	510	(96)
Less: reclassification adjustment for losses realized in net income, net of income tax benefit of \$34 and \$187	60	386
Other comprehensive income	4,476	3,178
Comprehensive income	\$ 210,654	\$ 176,544
Basic earnings per common share	\$ 1.05	\$.88
Diluted earnings per common share	\$ 1.02	\$.85

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Dividends declared per common share	\$.07	\$.06
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 206,177	\$ 173,366
Adjustments to reconcile net income to net cash provided by operating activities	59,725	78,534
Net cash provided by operating activities	265,902	251,900
Cash flows from investing activities:		
Additions to property and equipment	(22,360)	(22,523)
Additions to capitalized software	(50,126)	(53,861)
Purchase of marketable securities	(31,776)	(44,293)
Sale of marketable securities	26,747	27,061
Cash received from sale of joint venture	3,116	
Cash received from consolidation of LSV		5,268
Other	(231)	(408)
Net cash used in investing activities	(74,630)	(88,756)
Cash flows from financing activities:		
Payments on long-term debt	(22,695)	(12,715)
Purchase and retirement of common stock	(183,856)	(81,581)
Proceeds from issuance of common stock	35,170	30,155
Tax benefit on stock options exercised	16,038	24,854
Payment of dividends	(25,683)	(22,704)
Net cash used in financing activities	(181,026)	(61,991)
Net increase in cash and cash equivalents	10,246	101,153
Cash and cash equivalents, beginning of period	286,948	130,128
Cash and cash equivalents, end of period	\$ 297,194	\$ 231,281

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

Notes to Consolidated Financial Statements

(unaudited)

(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 10.

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, 2006. 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, 2007, the results of operations for the three and nine months ended September 30, 2007 and 2006, and cash flows for the nine month periods ended September 30, 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.

Except as disclosed herein, there have been no significant changes in significant accounting policies during the nine months ended September 30, 2007 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Cash and Cash Equivalents

Cash and cash equivalents includes \$91,288 and \$110,663 at September 30, 2007 and December 31, 2006, respectively, primarily invested in Company-sponsored open-ended money market mutual funds.

Restricted Cash

Restricted cash at September 30, 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.

Capitalized Software

The Company capitalized \$50,126 and \$53,861 of software development costs during the nine months ended September 30, 2007 and 2006, respectively. As of September 30, 2007, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 14.5 years. Amortization expense related to capitalized software was \$3,975 and \$886 during the three months ended September 30, 2007 and 2006, respectively. Amortization expense related to capitalized software was \$5,497 and \$3,304 during the nine months ended September 30, 2007 and 2006, respectively.

In July 2007, the Global Wealth Platform was placed into service. The amount of capitalized software development costs related to the platform was \$199,552. Amortization of these costs began in the three month period ended September 30, 2007 using the straight-line method over an estimated useful life of 15 years.

In the second quarter of 2006, the Company determined that the front-end component of the SEI Advisor Desktop did not fully satisfy the expected functionality requirements and would require additional investment. Management decided to discontinue any further development work for this front-end component and wrote-off \$3,429 of previously capitalized software development costs. Additionally, \$2,265 of previously capitalized software development costs related to other discontinued projects associated with the Global Wealth Platform were written-off in the first half of 2006. The charges for capitalized software development costs written-off are included in Facilities, supplies and other costs on the accompanying Consolidated Statements of Operations. There were no capitalized software development costs written-off in the nine month period ended September 30, 2007.

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 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 11).

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 September 30, 2007.

Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended September 30, 2007 and 2006 are:

	For the Three Month Period Ended September 30, 2007		
	Income	Shares	Per
	(Numerator)	(Denominator)	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

	For the Three Month Period Ended September 30, 2006		
	Income	Shares	Per
	(Numerator)	(Denominator)	Share
			Amount
Basic earnings per common share	\$ 60,549	197,144	\$.31
Dilutive effect of stock options		6,116	
Diluted earnings per common share	\$ 60,549	203,260	\$.30

Employee stock options to purchase 3,468,000 and 6,107,000 shares of common stock, with an average exercise price of \$29.62 and \$21.02, were outstanding during the three month periods ended September 30, 2007 and 2006, 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.

The calculations of basic and diluted earnings per share for the nine months ended September 30, 2007 and 2006 are:

	For the Nine Month Period Ended September 30, 2007		
	Income	Shares	Per
	(Numerator)	(Denominator)	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

	For the Nine Month Period Ended September 30, 2006		
	Income	Shares	Per
	(Numerator)	(Denominator)	Share
			Amount
Basic earnings per common share	\$ 173,366	197,218	\$.88
Dilutive effect of stock options		5,584	
Diluted earnings per common share	\$ 173,366	202,802	\$.85

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Employee stock options to purchase 3,456,000 and 6,107,000 shares of common stock, with an average exercise price of \$29.64 and \$21.02, were outstanding during the nine month periods ended September 30, 2007 and 2006, 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.

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Comprehensive Income

Accumulated other comprehensive income, net of tax, consist of:

	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Investments	Accumulated Other Comprehensive Income
Beginning balance (Dec. 31, 2006)	\$ 6,446	\$ 1,192	\$ 7,638
Current period change	3,906	570	4,476
Ending balance (Sept. 30, 2007)	\$ 10,352	\$ 1,762	\$ 12,114

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:

	2007	2006
Net income	\$ 206,177	\$ 173,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,867	21,849
Distribution from unconsolidated affiliate		16,940
Undistributed earnings of minority interests	134,439	105,858
Distributions to partners of LSV	(104,410)	(57,737)
Stock-based compensation	20,460	15,302
Gain on sale of joint venture	(2,952)	
Gain on partial sale of unconsolidated affiliate		(267)
Provision for losses on receivables	155	1,352
Deferred income tax expense	5,913	(243)
Net realized losses on investments	1,515	1,866
Write-off of capitalized software		5,694
Change in other long-term liabilities	11,910	
Other	(785)	(1,403)
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from regulated investment companies	(7,210)	(1,186)
Receivables	(37,762)	(33,533)
Other current assets	4,906	(2,575)
Increase (decrease) in		
Accounts payable	5,499	3,293
Payable to regulated investment companies	1,311	(204)
Accrued liabilities	628	3,553
Deferred revenue	241	(25)
Total adjustments	59,725	78,534
Net cash provided by operating activities	\$ 265,902	\$ 251,900

The following non-cash activity is excluded from the Consolidated Statements of Cash Flows for the nine months ended September 30, 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 does not expect the adoption of SFAS 159 to have a material impact 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 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 the 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.

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 and \$5,416 in amortization expense during the three and nine months ended September 30, 2007 and 2006, respectively, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statement of Operations. The amount of amortization expense in 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 is eliminated through Minority interest and has no impact on net income.

	September 30, 2007	December 31, 2006
Intangible asset, at cost	\$ 72,220	\$ 72,220
Accumulated amortization	(12,638)	(7,222)
Net book value	\$ 59,582	\$ 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 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 September 30, 2007, the remaining unpaid principal balance of the term loan was \$57,943, of which \$8,000 is classified as current and included in Current portion of long-term debt and the remaining \$49,943 is included in Long-term debt on the accompanying Consolidated Balance Sheets. LSV Employee Group made principal payments of \$13,695 and \$7,326 during the nine months ended September 30, 2007 and 2006, respectively. Interest expense for the nine months ended September 30, 2007 and 2006 on the Consolidated Statements of Operations includes \$2,962 and \$3,288, respectively, 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 \$5,972 in October 2007. The remaining unpaid principal balance of the term loan at October 31, 2007 was \$51,971. 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 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 \$109 and \$327 of amortization expense during the three and nine months ended September 30, 2007 and 2006, respectively, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statements of Operations.

	September 30, 2007	December 31, 2006
Intangible asset, at cost	\$ 3,821	\$ 3,821
Accumulated amortization	(1,310)	(983)
Net book value	\$ 2,511	\$ 2,838

Note 4. Composition of Certain Financial Statement CaptionsReceivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2007	December 31, 2006
Trade receivables	\$ 51,322	\$ 45,242
Fees earned, not billed	186,060	154,378
Other receivables	3,500	10,109
	240,882	209,729
Less: Allowance for doubtful accounts	(2,885)	(2,730)
	\$ 237,997	\$ 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:

	September 30, 2007	December 31, 2006
Equipment	\$ 62,916	\$ 57,746
Buildings	124,881	98,615
Land	9,548	9,510
Purchased software	40,984	38,564
Furniture and fixtures	19,866	18,563
Leasehold improvements	6,072	5,144
Construction in progress	1,514	15,767
	265,781	243,909
Less: Accumulated depreciation and amortization	(127,273)	(113,177)
Property and Equipment, net	\$ 138,508	\$ 130,732

The Company recognized \$5,024 and \$4,445 in depreciation and amortization expense related to property and equipment for the three months ended September 30, 2007 and 2006, respectively. In the nine months ended September 30, 2007 and 2006, the Company recognized \$14,418 and \$12,619, respectively, in depreciation and amortization expense related to property and equipment.

Other Assets

During the second quarter of 2007, the Company sold its remaining ownership in a joint venture and wrote-off an investment in a private company. Both of these items were previously included in Other assets on the accompanying Consolidated Balance Sheets. The Company sold its interests in the joint venture for \$3,116 and recorded a gain of \$2,952, which is reflected in Other income and expense items on the accompanying Consolidated Statements of Operations for the nine months ended September 30, 2007. The Company recorded a loss of \$475 related to the write-off of the investment, which is reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations for the nine months ended September 30, 2007.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2007	December 31, 2006
Accrued compensation	\$ 55,616	\$ 68,657
Accrued consulting	12,635	10,782
Accrued sub-advisor and investment officer fees	15,921	12,314
Accrued income taxes	15,627	15,057
Accrued dividend payable		11,881
Accrued mutual fund distribution fees	12,328	6,000
Other accrued liabilities	51,664	50,353
 Total accrued liabilities	 \$ 163,791	 \$ 175,044

Note 5. Marketable Securities and Derivative Instruments
Investments Available for Sale

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

	Cost Amount	As of September 30, 2007		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Company-sponsored mutual funds	\$ 58,749	\$ 114	\$ (83)	\$ 58,780
Non-company-sponsored mutual funds	4,266	65		4,331
Debt securities	6,313		(64)	6,249
Equity securities	6,690	2,758		9,448
	\$ 76,018	\$ 2,937	\$ (147)	\$ 78,808

	Cost Amount	As of December 31, 2006		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
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 September 30, 2007 were \$1,762 (net of income tax expense of \$1,028) 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 September 30, 2007, the Company recognized gross realized losses from available-for-sale securities of \$98. There were no realized gains or losses from available-for-sale securities during the three months ended September 30, 2006. During the nine months ended September 30, 2007, the Company recognized gross realized gains from available-for-sale securities of \$4 and gross realized losses of \$98. The Company recognized gross realized gains of \$1,901 during the nine months ended September 30, 2006. These gains are reflected in Net (loss) gain from investments on the accompanying Consolidated Statements of Operations. There were no realized losses

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recognized during the nine months ended September 30, 2006.

The Company holds equity derivatives with a notional amount of \$11,742 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 \$44,771. 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 \$267 and net gains of \$414 in the three month periods ended September 30, 2007 and 2006, respectively, from changes in the fair value of derivative instruments. In the nine months ended September 30, 2007 and 2006, the Company recognized net losses of \$1,371 and \$496, respectively, from derivative instruments. These gains and losses are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

Held-to-Maturity Securities

At September 30, 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 \$3,700 and \$4,617 at September 30, 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 September 30, 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 \$16,456 and \$16,431 at September 30, 2007 and December 31, 2006, respectively. The Company recognized gains of \$154 and \$250 from the change in fair value of the securities and sales of certain securities during the three months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2007 and 2006, the Company recognized gains of \$410 and \$250, respectively, from the change in fair value of the securities and sales of certain securities. These gains are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

Note 6. Lines of Credit

On September 14, 2004, the Company entered into a three-year \$200,000 credit facility agreement which was terminated on July 25, 2007. The Company had no borrowings under the facility and was in compliance with all covenants associated with the facility during the entire term of the agreement.

On July 25, 2007 (the Closing Date), the Company entered into a five-year \$200,000 Credit Agreement (the Credit Facility). The Credit Facility became available on the Closing Date and terminates in July 2012. The aggregate amount of the Credit Facility may be increased by an additional \$100,000 under certain conditions set forth in the agreement. At termination, any aggregate principal amount of loans outstanding under the Credit Facility becomes payable in full. Any borrowings made under the Credit Facility will accrue interest at 0.45 percent above the London Interbank Offer Rate (LIBOR). There is also a commitment fee equal to 0.09 percent per annum on the daily unused portion of the facility. The Credit Facility contains various covenants, none of which negatively affect the Company's liquidity or capital resources. Both the interest rate and commitment fee prices may increase if the Company's leverage ratio reaches certain levels. The Company had no borrowings under the facility and was in compliance with all covenants at September 30, 2007.

On November 8, 2007, the Company entered into Capital Support Agreements with two mutual funds sponsored by the Company that may require it to make capital contributions to these funds up to an aggregate amount of \$129,000 under certain conditions (See Note 12). The obligations of the Company under the Capital Support Agreements are secured by letters of credit of a third party bank. The letters of credit were issued under the Company's existing credit facility and have a term of one year. On the same date, certain provisions and terms of the Credit Facility were amended that provides for a waiver of any breach to various covenants or excluding from the computation of certain covenants any borrowings arising solely from any transaction due to the Capital Support Agreements. As of the same date, the Company had no borrowings under the Credit Facility and remained in compliance with all covenants.

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 at September 30, 2007. The Company was in compliance with all covenants since the inception of the agreement through September 30, 2007.

Note 7. Long-term Debt

In February 1997, the Company signed a Note Purchase Agreement authorizing the issuance and sale of \$20,000 7.20 percent Senior Notes, Series A, and \$15,000 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. On August 24, 2007, the Company made a voluntary principal pre-payment of \$5,000 and a make-whole payment of \$293 for the Series B Notes. With these payments, all amounts outstanding relating to the Notes were extinguished.

Long-term debt as of September 30, 2007 on the accompanying Consolidated Balance Sheets consists entirely of the borrowings of LSV Employee Group. Long-term debt as of December 31, 2006 consists of the borrowings of the Company and LSV Employee Group (See Note 2).

Note 8. Shareholders Equity
Stock-Based Compensation

On April 3, 2007, the Company's Board of Directors approved the 2007 Equity Compensation Plan (the 2007 Plan), which was later approved by the shareholders of the Company on May 23, 2007. The 2007 Plan became effective June 1, 2007 and provides for the grant of incentive stock options, non-qualified stock options and stock appreciation rights with respect to up to 20 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. The plan is administered by the Compensation Committee of the Board of Directors of the Company. As of September 30, 2007, grants of stock options made under the 2007 Plan were minimal. There were no grants of stock appreciation rights made under the plan.

Effective June 1, 2007, the Company discontinued any further grants under the Company's 1998 Equity Compensation Plan (the 1998 Plan) as a result of the approval of the 2007 Plan. The Company also maintains three additional equity compensation plans which have non-qualified stock options outstanding, but these plans have been terminated. 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.

All outstanding stock options 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. All options outstanding have a 10 year life. The Company believes that awarding stock options with performance-based vesting schedules better aligns the interests of stockholders and employees.

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The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the three month periods ended September 30, 2007 and 2006, respectively, as follows:

	Three Months Ended September 30,	
	2007	2006
Stock-based compensation expense	\$ 7,002	\$ 7,220
Less: Deferred tax benefit	(2,460)	(2,006)
Stock-based compensation expense, net of tax	\$ 4,542	\$ 5,214
Basic and diluted earnings per share	\$.02	\$.03

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the nine month periods ended September 30, 2007 and 2006, respectively, as follows:

	Nine Months Ended September 30,	
	2007	2006
Stock-based compensation expense	\$ 20,460	\$ 15,302
Less: Deferred tax benefit	(6,501)	(4,955)
Stock-based compensation expense, net of tax	\$ 13,959	\$ 10,347
Basic and diluted earnings per share	\$.07	\$.05

As of September 30, 2007, there was approximately \$41,858 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	\$ 6,856
2008	14,360
2009	7,122
2010	3,861
2011	3,861
2012	3,819
2013	1,979
	\$ 41,858

In the nine months ended September 30, 2007 and 2006, the Company accelerated the recognition of \$1,160 and \$3,078, respectively, in stock-based compensation expense due to a change in management's estimate of when certain vesting targets are expected to be achieved.

The Company issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the nine months ended September 30, 2007 and 2006 was \$45,391 and \$65,926, respectively. The total options outstanding as of September 30, 2007 and 2006 was 26,104,000 and 27,328,000, respectively.

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 \$1,428,365, including an additional authorization on October 23, 2007 for \$100,000. Through September 30, 2007, a total of 248,318,000 shares at an aggregate cost of \$1,294,966 have been purchased and retired. The Company purchased 2,286,000 shares at a total cost of \$59,162 during the three months ended September 30, 2007. During the nine months ended September 30, 2007, the Company purchased 6,455,000 shares at a total cost of \$183,856.

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.

Stock Split

On May 23, 2007, the Board of Directors approved a two-for-one stock split of the Company's \$.01 par value common stock, effected in the form of a stock dividend which was paid on June 21, 2007 to shareholders of record on June 11, 2007. The par value of the stock remained unchanged. Accordingly, a total of \$981 was reclassified from Retained earnings to Common stock. All per-share amounts have been adjusted to reflect the stock split. Amounts of Common stock at December 31, 2006 on the accompanying Consolidated Balance Sheets have not been retroactively adjusted.

Cash Dividend

On May 23, 2007, the Board of Directors declared a cash dividend of \$.07 per share on the Company's common stock, which was paid on June 21, 2007, to shareholders of record on June 8, 2007.

Cash dividends declared during the nine month periods ended September 30, 2007 and 2006 were \$13,806 and \$11,845, respectively.

Note 9. 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 has not made any provision relating to this legal proceeding.

Note 10. 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, fund 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 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.

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The information in the following tables is derived from the Company's internal financial reporting used for corporate management purposes. There are no inter-segment revenues for the three and nine months ended September 30, 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 September 30, 2007 and 2006.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	LSV	Total
For the Three Month Period Ended September 30, 2007							
Revenues	\$ 104,280	\$ 65,715	\$ 51,275	\$ 35,844	\$ 1,881	\$ 90,641	\$ 349,636
Expenses (1)	82,846	31,257	30,980	25,445	5,020	56,252	231,800
Operating profit (loss)	\$ 21,434	\$ 34,458	\$ 20,295	\$ 10,399	\$ (3,139)	\$ 34,389	\$ 117,836
Profit margin	21%	52%	40%	29%	N/A	38%	34%

- (1) The Private Banks segment includes \$1,345 of minority interest of other shareholders relating to a joint venture. LSV includes \$47,671 of minority interest of the other partners of LSV.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	LSV	Total
For the Three Month Period Ended September 30, 2006							
Revenues	\$ 94,058	\$ 55,117	\$ 42,115	\$ 29,802	\$ 1,914	\$ 75,078	\$ 298,084
Expenses (2)	71,512	27,535	27,210	22,131	6,118	45,990	200,496
Operating profit (loss)	\$ 22,546	\$ 27,582	\$ 14,905	\$ 7,671	\$ (4,204)	\$ 29,088	\$ 97,588
Profit margin	24%	50%	35%	26%	N/A	39%	33%

- (2) The Private Banks segment includes \$1,345 of minority interest of other shareholders relating to a joint venture. LSV includes \$39,653 of minority interest of the other partners of LSV.

A reconciliation of the total reported for the business segments to income from operations in the Consolidated Statements of Operations for the quarters ended September 30, 2007 and 2006 is as follows:

	2007	2006
Total operating profit from segments above	\$ 117,836	\$ 97,588
Corporate overhead expenses	(9,754)	(9,772)
Minority interest reflected in segments	49,016	40,749
LSV Employee Group (1)	(1,820)	(1,806)
Income from operations	\$ 155,278	\$ 126,759

- (1) For the three months ended September 30, 2007 and 2006, includes \$1,805 in amortization expense of intangible assets related to LSV Employee Group.

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The following tables provide additional information for the three months ended September 30, 2007 and 2006 as required by SFAS 131 pertaining to our business segments:

	Capital Expenditures		Depreciation and Amortization	
	2007	2006	2007	2006
Private Banks	\$ 13,437	\$ 13,372	\$ 6,085	\$ 3,512
Investment Advisors	4,898	4,946	1,571	742
Institutional Investors	1,146	2,358	429	302
Investment Managers	1,437	1,521	478	481
Investments in New Businesses	248	501	119	76
LSV	59	41	275	172
Total from business segments	\$ 21,225	\$ 22,739	\$ 8,957	\$ 5,285
LSV Employee Group			1,821	1,820
Corporate Overhead	407	1,420	213	213
	\$ 21,632	\$ 24,159	\$ 10,991	\$ 7,318

The following tables highlight certain unaudited financial information about each of the Company's business segments for the nine months ended September 30, 2007 and 2006.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	LSV	Total
Revenues	\$ 302,108	\$ 192,724	\$ 146,815	\$ 105,131	\$ 5,347	\$ 263,494	\$ 1,015,619
Expenses (3)	241,668	91,550	89,334	74,649	14,597	162,411	674,209
Operating profit (loss)	\$ 60,440	\$ 101,174	\$ 57,481	\$ 30,482	\$ (9,250)	\$ 101,083	\$ 341,410
Profit margin	20%	52%	39%	29%	N/A	38%	34%

- (3) The Private Banks segment includes \$3,437 of minority interest of other shareholders relating to a joint venture. LSV includes \$139,204 of minority interest of the other partners of LSV.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	LSV	Total
Revenues	\$ 273,176	\$ 165,646	\$ 119,166	\$ 86,138	\$ 5,346	\$ 210,763	\$ 860,235
Expenses (4)	204,666	82,745	77,814	67,158	16,843	129,768	578,994
Operating profit (loss)	\$ 68,510	\$ 82,901	\$ 41,352	\$ 18,980	\$ (11,497)	\$ 80,995	\$ 281,241
Profit margin	25%	50%	35%	22%	N/A	38%	33%

- (4) The Private Banks segment includes \$4,045 of minority interest of other shareholders relating to a joint venture. LSV includes \$110,519 of minority interest of the other partners of LSV.