SEI INVESTMENTS CO
Form 10-Q
August 05, 2009

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)*

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended June 30, 2009

or

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

**0-10200**

**(Commission File Number)**

# SEI INVESTMENTS COMPANY

**(Exact name of registrant as specified in its charter)**

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

**1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100**

**(Address of principal executive offices)**

**(Zip Code)**

**(610) 676-1000**

**(Registrant s telephone number, including area code)**

**N/A**

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

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

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

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

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

SEC 1296 (04-09) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 31, 2009: 191,042,910 shares of common stock, par value $.01 per share.

(Cover page 1 of 1)

**PART I**. **FINANCIAL INFORMATION**

**Item 1**. **Consolidated Financial Statements.**

**SEI Investments Company**

**Consolidated Balance Sheets**

*(unaudited)*

*(In thousands)*

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 493,128 | $ 416,643 |
| Restricted cash | 17,000 | 14,000 |
| Receivables from regulated investment companies | 25,802 | 28,364 |
| Receivables, net of allowance for doubtful accounts of $3,479 and $2,656 (Note 4) | 181,771 | 179,845 |
| Deferred income taxes | 21,339 | 84,830 |
| Other current assets | 33,961 | 15,989 |
| Total Current Assets | 773,001 | 739,671 |
| Property and Equipment, net of accumulated depreciation and amortization of $148,728 and $142,240 (Note 4) | 144,058 | 148,124 |
| Capitalized Software, net of accumulated amortization of $62,208 and $52,113 | 285,118 | 270,606 |
| Investments Available for Sale (Note 6) | 69,119 | 75,380 |
| Trading Securities (Note 6) | 96,176 | 11,313 |
| Goodwill (Notes 2 and 3) | 22,842 | 22,842 |
| Intangible Assets, net of accumulated amortization of $27,352 and $23,523 (Notes 2 and 3) | 48,689 | 52,518 |
| Other Assets | 19,819 | 21,261 |
| Total Assets | $ 1,458,822 | $ 1,341,715 |

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

**SEI Investments Company**

**Consolidated Balance Sheets**

*(unaudited)*

*(In thousands, except par value)*

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Liabilities and Shareholders Equity | | |
| Current Liabilities: | | |
| Current portion of long-term debt | $ 6,400 | $ 7,200 |
| Accounts payable | 13,134 | 12,308 |
| Payable to regulated investment companies | 79 | 97 |
| Accrued liabilities (Note 4) | 97,030 | 134,776 |
| Capital Support Agreements (Notes 5 and 7) | 29,973 | 173,983 |
| Deferred revenue | 969 | 1,530 |
| Total Current Liabilities | 147,585 | 329,894 |
| Long-term Debt | 272,288 | 24,332 |
| Deferred Income Taxes | 96,295 | 104,548 |
| Other Long-term Liabilities (Note 11) | 4,913 | 4,067 |
| Commitments and Contingencies | | |
| Equity: | | |
| SEI Investments Company shareholders equity: | | |
| Common stock, $.01 par value, 750,000 shares authorized; 190,969 and 191,195 shares issued and outstanding | 1,910 | 1,912 |
| Capital in excess of par value | 499,646 | 485,721 |
| Retained earnings | 338,715 | 289,682 |
| Accumulated other comprehensive loss, net | (3,445) | (8,163) |
| Total SEI Investments Company shareholders equity | 836,826 | 769,152 |
| Noncontrolling interest | 100,915 | 109,722 |
| Total Equity | 937,741 | 878,874 |
| Total Liabilities and Equity | $ 1,458,822 | $ 1,341,715 |

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

**SEI Investments Company**

**Consolidated Statements of Operations**

*(unaudited)*

*(In thousands, except per share data)*

| | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 |
|---|---|---|
| Revenues: | | |
| Asset management, administration and distribution fees | $ 183,209 | $ 260,931 |
| Information processing and software servicing fees | 54,694 | 57,088 |
| Transaction-based and trade execution fees | 14,106 | 11,504 |
| Total revenues | 252,009 | 329,523 |
| Expenses: | | |
| Commissions and fees | 36,139 | 43,045 |
| Compensation, benefits and other personnel | 67,031 | 83,529 |
| Consulting, outsourcing and professional fees | 18,711 | 26,611 |
| Data processing and computer related | 11,177 | 11,229 |
| Facilities, supplies and other costs | 16,203 | 18,417 |
| Depreciation and amortization | 12,762 | 11,498 |
| Total expenses | 162,023 | 194,329 |
| Income from operations | 89,986 | 135,194 |
| Net loss from investments | (2,533) | (27,294) |
| Interest and dividend income | 1,937 | 3,223 |
| Interest expense | (1,051) | (808) |
| Net income before income taxes | 88,339 | 110,315 |
| Income taxes | 24,212 | 27,572 |
| Net income | 64,127 | 82,743 |
| Less: Net income attributable to the noncontrolling interest | (22,556) | (36,579) |
| Net income attributable to SEI Investments Company | $ 41,571 | $ 46,164 |
| Basic earnings per common share | $ .22 | $ .24 |
| Diluted earnings per common share | $ .22 | $ .24 |
| Dividends declared per common share | $ .08 | $ .08 |

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)*

| | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|
| Revenues: | | |
| Asset management, administration and distribution fees | $ 352,573 | $ 520,990 |
| Information processing and software servicing fees | 116,911 | 117,227 |
| Transaction-based and trade execution fees | 31,136 | 25,214 |
| Total revenues | 500,620 | 663,431 |
| Expenses: | | |
| Commissions and fees | 73,692 | 88,340 |
| Compensation, benefits and other personnel | 143,899 | 167,421 |
| Consulting, outsourcing and professional fees | 39,861 | 53,368 |
| Data processing and computer related | 22,692 | 21,777 |
| Facilities, supplies and other costs | 31,636 | 35,802 |
| Depreciation and amortization | 25,324 | 23,018 |
| Total expenses | 337,104 | 389,726 |
| Income from operations | 163,516 | 273,705 |
| Net loss from investments | (16,983) | (51,340) |
| Interest and dividend income | 3,648 | 7,361 |
| Interest expense | (1,850) | (1,775) |
| Net income before income taxes | 148,331 | 227,951 |
| Income taxes | 33,141 | 56,747 |
| Net income | 115,190 | 171,204 |
| Less: Net income attributable to the noncontrolling interest | (39,419) | (76,094) |
| Net income attributable to SEI Investments Company | $ 75,771 | $ 95,110 |
| Basic earnings per common share | $ .40 | $ .49 |
| Diluted earnings per common share | $ .40 | $ .48 |
| Dividends declared per common share | $ .08 | $ .08 |

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

**SEI Investments Company**

**Consolidated Statements of Comprehensive Income**

*(unaudited)*

*(In thousands)*

| | | | | |
|---|---|---|---|---|
| | | **Three Months Ended June 30,** | | |
| | | **2009** | | **2008** |
| Net income | | $ 64,127 | | $ 82,743 |
| Other comprehensive gain (loss), net of tax: | | | | |
| Foreign currency translation adjustments | | 5,503 | | (62) |
| Unrealized holding gain (loss) on investments: | | | | |
| Unrealized holding gains (losses) during the period, net of income tax (expense) benefit of $(164) and $454 | 1,034 | | (766) | |
| Less: reclassification adjustment for losses (gains) realized in net income, net of income tax benefit of $322 and $0 | 555 | 1,589 | | (766) |
| Total other comprehensive gain (loss), net of tax | | 7,092 | | (828) |
| Comprehensive income | | $ 71,219 | | $ 81,915 |
| Comprehensive income attributable to the noncontrolling interest | | (23,530) | | (35,647) |
| Comprehensive income attributable to SEI Investments Company | | $ 47,689 | | $ 46,268 |

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

**SEI Investments Company**

**Consolidated Statements of Comprehensive Income**

*(unaudited)*

*(In thousands)*

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | | 2009 | | 2008 |
| Net income | | $ 115,190 | | $ 171,204 |
| Other comprehensive gain (loss), net of tax: | | | | |
| Foreign currency translation adjustments | | 3,733 | | (2,984) |
| Unrealized holding gain (loss) on investments: | | | | |
| Unrealized holding gains (losses) during the period, net of income tax (expense) benefit of $(406) and $588 | 945 | | (1,008) | |
| Less: reclassification adjustment for losses (gains) realized in net income, net of income tax benefit (expense) of $311 and $(395) | 528 | 1,473 | (671) | (1,679) |
| Total other comprehensive gain (loss), net of tax | | 5,206 | | (4,663) |
| Comprehensive income | | $ 120,396 | | $ 166,541 |
| Comprehensive income attributable to the noncontrolling interest | | (39,907) | | (74,191) |
| Comprehensive income attributable to SEI Investments Company | | $ 80,489 | | $ 92,350 |

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

**SEI Investments Company**

**Consolidated Statements of Cash Flows**

*(unaudited)*

*(In thousands)*

| | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 115,190 | $ 171,204 |
| Adjustments to reconcile net income to net cash provided by operating activities | 18,529 | (58,506) |
| Net cash provided by operating activities | 133,719 | 112,698 |
| Cash flows from investing activities: | | |
| Additions to restricted cash | (3,000) | (16,572) |
| Additions to property and equipment | (6,594) | (8,959) |
| Additions to capitalized software | (24,607) | (25,949) |
| Purchase of marketable securities | (252,403) | (16,935) |
| Sale of marketable securities | | 10,049 |
| Maturities of marketable securities | 13,999 | 17,000 |
| Net cash used in investing activities | (272,605) | (41,366) |
| Cash flows from financing activities: | | |
| Payments on long-term debt | (6,844) | (10,552) |
| Proceeds from borrowings on long-term debt | 254,000 | |
| Purchase and retirement of common stock | (10,464) | (91,601) |
| Proceeds from issuance of common stock | 8,218 | 15,044 |
| Tax benefit on stock options exercised | 1,059 | 4,183 |
| Payment of dividends | (30,598) | (28,942) |
| Net cash provided by (used in) financing activities | 215,371 | (111,868) |
| Net increase (decrease) in cash and cash equivalents | 76,485 | (40,536) |
| Cash and cash equivalents, beginning of period | 416,643 | 360,921 |
| Cash and cash equivalents, end of period | $ 493,128 | $ 320,385 |

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

**Notes to Consolidated Financial Statements**

(all figures are in thousands except per share data)

**Note 1. Summary of Significant Accounting Policies**

Nature of Operations

SEI Investments Company (the Company), a Pennsylvania corporation, provides investment processing, fund processing, and investment management business outsourcing solutions to corporations, financial institutions, financial advisors, and ultra-high-net-worth families in the United States, Canada, the United Kingdom, continental Europe, and other various locations throughout the world. Investment processing solutions utilize the Company s proprietary software system to track investment activities in multiple types of investment accounts, including personal trust, corporate trust, institutional trust, and non-trust investment accounts, thereby allowing banks and trust companies to outsource trust and investment related activities. Revenues from investment processing solutions are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations, except for fees earned associated with trade execution services.

The fund processing solution offers a full range of administration and distribution support services to mutual funds, collective trust funds, single-manager hedge funds, funds of hedge funds, private equity funds and other types of investment funds. Administrative services include fund accounting, trustee and custodial support, legal support, transfer agency and shareholder servicing. Distribution support services range from market and industry insight and analysis to identifying distribution opportunities. Revenues from fund processing solutions are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

Investment management programs consist of mutual funds, alternative investments and separate accounts. These include a series of money market, equity, fixed-income and alternative investment portfolios, primarily in the form of registered investment companies. The Company serves as the administrator and investment advisor for many of these products. Revenues from investment management programs are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Except as disclosed herein, there have been no significant changes in significant accounting policies during the six months ended June 30, 2009 as compared to the significant accounting policies described in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. 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 for a fair presentation of the financial position of the Company as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six month periods ended June 30, 2009 and 2008. These interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 160 (SFAS 160), Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51 in January 2009. SFAS 160 established accounting and reporting standards that require the ownership interests in subsidiaries not held by the parent to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent s equity. This statement also required the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income.

Variable Interest Entities

The Company has involvement with various variable interest entities (VIE or VIEs). These VIEs consist of LSV Employee Group, an SEI-sponsored money market fund, and other investment products in the form of Cayman Island investment companies (Cayman companies), Irish-domiciled funds which do not qualify as Undertakings for Collective Investment in Transferable Securities (non-UCITS), Canadian unit trusts and collective investment trusts.

In 2006, the Company provided an unsecured guaranty with the lenders of LSV Employee Group in order to facilitate the acquisition of partnership interest in LSV. The Company determined that LSV Employee Group is a VIE because the partners of LSV Employee Group do not have any equity at risk because the Company guaranteed the loan. The Company determined it was the primary beneficiary because of the requirement under the guaranty agreement for the Company to absorb any loss in the event of default on the loan by LSV Employee Group (See Note 2).

In 2007, the Company entered into Capital Support Agreements with three of its money market funds to protect the money market fund shareholders from absorbing the credit losses associated with senior notes issued by structured investment vehicles (SIV or SIVs). At the time the Company provided the Capital Support Agreements, the funds became VIEs; however, management concluded the Company was not the primary beneficiary. Management compared the credit risk absorbed through the Capital Support Agreements due to the SIV securities and the interest rate and credit risk associated with the non-SIVs absorbed by the money market funds shareholders to determine if the Company s risk represented the majority. This analysis determined that the interest rate and credit risk absorbed by the money market fund shareholders was more variable than the credit risk absorbed by the Company. Therefore, the Company is not bearing more than 50 percent of the expected losses on the money market funds and the Company is not the primary beneficiary. Subsequently, the Company purchased the remaining SIV securities from two of the money market funds. As a result of these purchases, the Capital Support Agreements with these funds were cancelled and, therefore, these funds are no longer considered VIEs (See Note 7).

Other variable interest entities are in the form of Cayman companies, Irish-domiciled non-UCITS, Canadian unit trusts and collective investment trusts established for the purpose of offering alternative investment products to clients. Clients of the Company are the equity holders in all of these VIEs. The Company governs all decision making authority of the Cayman companies, Irish domiciled non-UCITS, Canadian unit trusts and the collective investment trusts from which it receives a fee. The Company has no equity investment in the entities. Management has concluded that the Company does not have a significant variable interest in these entities and, therefore, is not the primary beneficiary.

On June 12, 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), which amends FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, (FIN 46(R)), to require an enterprise to perform an ongoing analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity s economic performance. SFAS 167 amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before this Statement, FIN 46(R) required reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity only when specific events occurred. SFAS 167 also amends FIN 46(R) to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance. SFAS 167 is effective for the Company beginning in the first quarter 2010. The Company is currently evaluating the impact SFAS 167 will have on its consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2009 and December 31, 2008 includes $348,655 and $282,155, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds. Cash includes $37,660 and $60,515 at June 30, 2009 and December 31, 2008, respectively, from LSV.

Restricted Cash

Restricted cash at June 30, 2009 and December 31, 2008 includes $17,000 and $14,000, respectively, segregated in special reserve accounts for the benefit of customers of the Company s broker-dealer subsidiary, SEI Investments Distribution Co. (SIDCO), in accordance with certain rules established by the Securities and Exchange Commission for broker-dealers.

Capitalized Software

The Company capitalized $24,607 and $25,949 of software development costs during the six months ended June 30, 2009 and 2008, respectively. As of June 30, 2009, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 12.9 years. Amortization expense related to capitalized software was $10,095 and $8,434 during the six months ended June 30, 2009 and 2008, respectively.

The Company placed the initial version of the Global Wealth Platform into service in July 2007 and has subsequently implemented enhancements and upgrades to the platform through a series of releases. The total amount of capitalized software development costs related to the platform placed into service and being amortized as of June 30, 2009 was $279,503, which includes $55,160 related to a release placed into service in January 2009. The Global Wealth Platform has an estimated useful life of 15 years and a weighted average remaining life of 13.0 years. Amortization expense related to the platform was $9,208 and $7,308, during the six months ended June 30, 2009 and 2008 respectively.

Fair Value of Financial Instruments

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. The Company adopted the provisions of SFAS 157 in January 2008. However, in February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted the provisions of SFAS 157 as they relate to nonfinancial assets and liabilities in January 2009. The adoption of SFAS 157 for nonfinancial assets and liabilities did not have a material impact on the Company s consolidated financial position, results of operations or cash flows. See Note 5 for information on related disclosures regarding fair value measurements.

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

Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended June 30, 2009 and 2008 are:

| | For the Three Month Period Ended June 30, 2009 | | |
|---|---|---|---|
| | **Income (Numerator)** | **Shares (Denominator)** | **Per Share Amount** |
| Basic earnings per common share | $ 41,571 | 191,023 | $ .22 |
| Dilutive effect of stock options | | 910 | |
| Diluted earnings per common share | $ 41,571 | 191,933 | $ .22 |

| | For the Three Month Period Ended June 30, 2008 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per common share | $ 46,164 | 192,187 | $ .24 |
| Dilutive effect of stock options | | 3,805 | |
| Diluted earnings per common share | $ 46,164 | 195,992 | $ .24 |

Employee stock options to purchase 19,522,000 and 9,256,000 shares of common stock, with an average exercise price of $22.35 and $27.58, were outstanding during the three month periods ended June 30, 2009 and 2008, respectively, but not included in the computation of diluted earnings per common share because the effect on diluted earnings per common share would have been anti-dilutive.

The calculations of basic and diluted earnings per share for the six months ended June 30, 2009 and 2008 are:

| | For the Six Month Period Ended June 30, 2009 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per common share | $ 75,771 | 191,053 | $ .40 |
| Dilutive effect of stock options | | 618 | |
| Diluted earnings per common share | $ 75,771 | 191,671 | $ .40 |

| | For the Six Month Period Ended June 30, 2008 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per common share | $ 95,110 | 192,908 | $ .49 |
| Dilutive effect of stock options | | 4,194 | |
| Diluted earnings per common share | $ 95,110 | 197,102 | $ .48 |

Employee stock options to purchase 24,377,000 and 5,911,000 shares of common stock, with an average exercise price of $20.85 and $30.79, were outstanding during the six month periods ended June 30, 2009 and 2008, respectively, but not included in the computation of diluted earnings per common share because the exercise price of the options was greater than the average market price of the Company s common stock, and the effect on diluted earnings per common share would have been anti-dilutive.

Comprehensive Income (Loss)

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

| | Foreign Currency Translation Adjustments | Unrealized Holding Gains (Losses) on Investments | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| Total accumulated comprehensive loss at December 31, 2008 | $ (9,787) | $ (1,524) | $ (11,311) |
| Less: Total accumulated comprehensive loss attributable to noncontrolling interest at December 31, 2008 | 3,148 | | 3,148 |
| Total accumulated comprehensive loss attributable to SEI Investments Company at December 31, 2008 | $ (6,639) | $ (1,524) | $ (8,163) |
| Total comprehensive income for the six months ended June 30, 2009 | $ 3,733 | $ 1,473 | $ 5,206 |
| Less: Total comprehensive income attributable to noncontrolling interest for the six months ended June 30, 2009 | (488) | | (488) |
| Total comprehensive income attributable to SEI Investments Company for the six months ended June 30, 2009 | $ 3,245 | $ 1,473 | $ 4,718 |
| Total accumulated comprehensive loss at June 30, 2009 | $ (6,054) | $ (51) | $ (6,105) |
| Less: Total accumulated comprehensive loss attributable to noncontrolling interest at June 30, 2009 | 2,660 | | 2,660 |
| Total accumulated comprehensive loss attributable to SEI Investments Company at June 30, 2009 | $ (3,394) | $ (51) | $ (3,445) |

Noncontrolling Interest

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

Statements of Cash Flows

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

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

| | 2009 | 2008 |
|---|---|---|
| Net income | $ 115,190 | $ 171,204 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 25,324 | 23,018 |
| Payments to partners of LSV | (48,329) | (75,719) |
| Stock-based compensation | 6,791 | 9,210 |
| Provision for losses on receivables | 823 | (285) |
| Deferred income tax expense | 54,521 | (17,454) |
| Net realized losses (gains) on investments | 160,993 | (1,756) |
| Change in other long-term liabilities | 846 | 728 |
| Other | 3,293 | (5,282) |
| Change in current asset and liabilities | | |
| Decrease (increase) in | | |
| Receivables from regulated investment companies | 2,562 | 69 |
| Receivables | (993) | (634) |
| Other current assets | (17,972) | 20 |
| Increase (decrease) in | | |
| Accounts payable | 826 | 2,545 |
| Capital Support Agreements | (144,010) | 53,096 |
| Payable to regulated investment companies | (18) | 66 |
| Accrued liabilities | (25,567) | (45,487) |
| Deferred revenue | (561) | (641) |
| Total adjustments | 18,529 | (58,506) |
| Net cash provided by operating activities | $ 133,719 | $ 112,698 |

New Accounting Pronouncements

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2). FSP 115-2 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities. FSP 115-2 also contains additional disclosure requirements related to debt and equity securities. The Company adopted FSP 115-2 in the second quarter 2009. The adoption of FSP 115-2 did not have a material impact on the Company s consolidated financial statements.

On May 28, 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS 165 in the second quarter 2009. Since SFAS 165 only requires additional disclosures, the adoption of SFAS 165 did not have any impact on the Company s consolidated financial statements.

On June 12, 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166), which improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows, and a transferor s continuing involvement, if any, in transferred financial assets. SFAS 166 is effective for the Company beginning in the first quarter 2010. The Company is currently evaluating the impact SFAS 166 will have on its consolidated financial statements, but does not believe it will have a significant impact upon adoption.

Reclassifications

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

Subsequent Events

The Company has performed an evaluation of subsequent events through August 5, 2009, which is the date the financial statements were issued.

**Note 2. LSV and LSV Employee Group**

The Company has an investment in the general partnership LSV Asset Management (LSV), a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies. LSV is currently an investment sub-advisor for a number of SEI-sponsored mutual funds. The Company s total partnership interest in LSV was approximately 43 percent through March 31, 2009 and approximately 42 percent for the three month period ended June 30, 2009 (See Issuance of Partnership Interest below). LSV Employee Group is owned by several current employees of LSV and was formed for the sole purpose of owning a partnership interest in LSV. The Company does not own any interest in LSV Employee Group.

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

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

As a result of this transaction, LSV Employee Group meets the definition of a variable interest entity and the Company is the primary beneficiary in accordance with the guidance of FIN 46(R). The Company therefore consolidates the assets, liabilities and operations of LSV and LSV Employee Group in its Consolidated Financial Statements. The Company s direct ownership in LSV at the date of this transaction was unchanged, or approximately 43 percent. The amount of ownership of the other existing partners of LSV was approximately 57 percent and is included in Noncontrolling Interest.

The Company determined that $72,220 of the $92,000 purchase price related to identifiable intangible assets and the remaining $19,780 was goodwill. The identifiable intangible assets have an estimated life of ten years and are amortized on a straight-line basis. The Company recognized $3,611 in amortization expense during the six months ended June 30, 2009 and 2008, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statement of Operations. Amortization expense recognized in the Consolidated Statement of Operations associated with the assets of LSV Employee Group was eliminated through Noncontrolling interest and had no impact on net income.

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Intangible asset, at cost | $ 72,220 | $ 72,220 |
| Accumulated amortization | (25,277) | (21,666) |
| Net book value | $ 46,943 | $ 50,554 |

Issuance of Partnership Interest

In March 2009, certain partners (the Contributing Partners) of LSV, including the Company, agreed to designate a portion of their partnership interest for the purpose of providing an interest in LSV to a select group of key employees. Until such time an interest in LSV is issued to a key employee, all profits, losses, distributions and other rights and obligations relating to such unissued interests remains with the Contributing Partners. Each issuance must be authorized by unanimous vote of all Contributing Partners. The issuance of an interest in LSV to a key employee provides them an interest in the future profits of LSV. It does not provide them any rights in the management of the partnership or the ability to direct the operations or affairs of LSV.

In April 2009, the Contributing Partners agreed to provide certain employees an interest in LSV from the Contributing Partners, thereby reducing the Company s interest in LSV to approximately 42 percent. The Company s direct interest in LSV and its indirect interest in LSV through LSV Employee Group was reduced to less than 50 percent. The Company evaluated the effect of this transaction in accordance with the guidance established in SFAS 160 and determined that the reduction of the Company s interest of less than one percent in LSV was not a significant economic event that had any effect on the control of the operations or affairs of LSV. The Company s controlling interest in LSV was unchanged. The Company continued to consolidate the assets, liabilities and operations of LSV and LSV Employee Group.

LSV Employee Group Term Loan

In order to finance a portion of the purchase price, LSV Employee Group obtained financing from Bank of America, N.A. (formerly LaSalle Bank National Association) and certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement. The principal amount of the term loan was $82,800. The principal amount and interest of the term loan are paid in quarterly installments. The total outstanding principal balance of the term loan must be paid in full by January 2011. LSV Employee Group may prepay the term loan in whole or in part at any time without penalty. As of June 30, 2009, the remaining unpaid principal balance of the term loan was $24,688, of which $6,400 is classified as current and included in Current portion of long-term debt and the remaining $18,288 is included in Long-term debt on the accompanying Consolidated Balance Sheets. LSV Employee Group made principal payments of $6,844 and $10,552 during the six months ended June 30, 2009 and 2008, respectively. Interest expense for the six months ended June 30, 2009 and 2008 on the Consolidated Statements of Operations includes $793 and $1,264, respectively, in interest costs associated with the borrowings of LSV Employee Group which was eliminated through Noncontrolling interest and had no impact on net income.

LSV Employee Group made a principal payment of $2,496 in July 2009. The remaining unpaid principal balance of the term loan at July 31, 2009 was $22,192. The Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group.

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

LSV Employee Group entered into two interest rate swap agreements to convert its floating rate long-term debt to fixed rate debt. One of these swap agreements terminated on March 31, 2009. The remaining swap agreement has a notional value of $26,240. Payments are made every 90 days and the termination date of the remaining swap agreement is January 2011. The net effect from the interest rate swaps on the Company s earnings during the six months ended June 30, 2009 and 2008 was minimal.

**Note 3. Goodwill and Other Intangible Asset**

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

The Company identified an intangible asset related to customer contracts that met the contractual-legal criterion for recognition apart from goodwill. The fair value of the intangible 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 $218 of amortization expense during the six months ended June 30, 2009 and 2008, which is reflected in Depreciation and amortization expense on the accompanying Consolidated Statements of Operations.

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Intangible asset, at cost | $ 3,821 | $ 3,821 |
| Accumulated amortization | (2,075) | (1,857) |
| Net book value | $ 1,746 | $ 1,964 |

**Note 4. Composition of Certain Financial Statement Captions**

Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Trade receivables | $ 55,014 | $ 49,656 |
| Fees earned, not billed | 125,129 | 130,341 |
| Other receivables | 5,107 | 2,504 |
| | 185,250 | 182,501 |
| Less: Allowance for doubtful accounts | (3,479) | (2,656) |
| | $ 181,771 | $ 179,845 |

Fees earned, not billed represents receivables earned but unbilled and results from timing differences between services provided and contractual billing schedules. These billing schedules generally provide for fees to be billed on a quarterly basis.

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

Property and Equipment

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

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Buildings | $ 131,351 | $ 131,321 |
| Equipment | 62,797 | 63,952 |
| Land | 9,695 | 9,695 |
| Purchased software | 60,147 | 58,846 |
| Furniture and fixtures | 18,368 | 18,141 |
| Leasehold improvements | 5,631 | 5,288 |
| Construction in progress | 4,797 | 3,121 |
| | 292,786 | 290,364 |
| Less: Accumulated depreciation and amortization | (148,728) | (142,240) |
| Property and Equipment, net | $ 144,058 | $ 148,124 |

The Company recognized $10,873 and $10,653 in depreciation and amortization expense related to property and equipment for the six months ended June 30, 2009 and 2008, respectively.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Accrued employee compensation | $ 22,068 | $ 35,425 |
| Accrued employee benefits and other personnel | 7,256 | 8,012 |
| Accrued consulting, outsourcing and professional fees | 14,691 | 15,055 |
| Accrued distribution fees | 3,102 | 14,228 |
| Accrued brokerage fees | 16,432 | 14,001 |
| Accrued other commissions and fees | 15,948 | 15,537 |
| Accrued dividend payable | | 15,297 |
| Other accrued liabilities | 17,533 | 17,221 |
| Total accrued liabilities | $ 97,030 | $ 134,776 |

**Note 5. Fair Value Measurements**

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

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

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

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

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

Recent liquidity issues surrounding collateralized debt obligations and asset-backed securities has greatly affected the fair value of SIV securities. Given the lack of any reliable market data on the SIV securities owned by the Company or held by SEI-sponsored money market funds, the fair value of these securities is determined using a net asset value approach which considers the value of the underlying collateral of the SIV securities. The valuation model is maintained by an independent third party. The underlying collateral is comprised of asset-backed securities and collateralized debt obligations that are specifically identified by its CUSIP or ISIN number. The Company obtains quotes primarily from two independent external pricing vendors for each security. Other pricing vendors may be used in limited situations when a security quote can not be obtained from either of the two primary independent external pricing vendors. The average of the two quotes received is used to value each security. Additionally, the securities are aggregated by type or sector (i.e. home equity line of credit, sub-prime 1st liens, residential mortgage-backed securities, etc.) and the weighted average quote of all securities within a sector held by the SIV is compared with the range of quotes received for similar securities within the same sector from the trading desk of an affiliate of the third party that maintains the SIV pricing model. The weighted average quote of all securities within a sector held by the SIV must be within the range of quotes received from the trading desk within that same sector. If the weighted average quote for all securities within a sector held by the SIV is outside that range, the average quote received from the pricing vendors may be adjusted. In any event, the value assigned to each security held by the SIV will be the lower of (i) the average of the quotes received from the pricing vendors or (ii) the lowest quote received from the trading desk for a similar security.

A portion of the securities that comprise the underlying collateral of the SIV securities lack price quotes. These securities that lack price quotes are adjusted by the weighted average percentage movement of securities held as collateral within the same sector classification. For example, a residential mortgage-backed security that has not received a quote for an extended period of time will be adjusted by the weighted average percentage movement of all quoted residential mortgage-backed securities held as collateral by the SIV security. Also, as previously stated, the weighted average price of all securities within a sector is compared with the range of quotes received from the trading desk of an affiliate of the independent third party that maintains the valuation model. The weighted average quote of all securities within a sector must be within the range of quotes received from the trading desk within that same sector. If the average quote is not within the range, the quote may be adjusted. The average quote will only be adjusted downward to the lowest figure.

The pricing vendors utilize widely-accepted pricing models, which are evaluated by the pricing vendor, that vary by asset class and incorporate available trade, bid, and other market information. The market inputs that these vendors seek for their evaluation of securities include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and other available market data. Broker quotes may be binding or non-binding. For certain security types, additional inputs may be used. The pricing vendors may prioritize inputs differently from time to time for any security based on current market conditions. For each asset class, the pricing vendor has a team of evaluators that gather information from market sources and integrate relevant credit information, perceived market movements and sector news into the evaluated pricing models. For a structured security evaluation, including mortgage-backed securities, these evaluators would consider various characteristics including issuer, vintage, purpose of loan, collateral attributes, prepayment speeds and credit ratings in order to properly identify trades and quotes for similar securities which are gathered for use in the evaluation process. Evaluators follow multiple review processes throughout each month that assess the available market, credit and deal level information in support of the evaluation process. If it is determined that sufficient objectively verifiable information does not exist to support a security s valuation, the pricing vendor will discontinue providing a quote on that security. As previously stated, securities that lack a quote from a pricing vendor are valued using the most recent quoted price and adjusting that price by the weighted average percentage change in the respective sector of all other similar securities that are held by the SIV.

The Company evaluated the inputs used by the pricing vendors in accordance with the fair value hierarchy established in SFAS 157. This process required gaining an understanding of their valuation methodologies, processes, models and inputs. The pricing vendors provided information about each model, the inputs used and the order of priority of each input. In the event management disagrees with a quoted price from a vendor, the Company may challenge that price and request an evaluation. The Company considered each vendor s qualification to provide quotes pertaining to each security. All pricing vendors used are considered to be market leaders that have a long history of providing reliable information to their clients.

In the event a market transaction does exist for a SIV security, management evaluates the publicly available information surrounding the transaction in order to assess if the price used represents the fair value according to the guidance in SFAS 157. In management s opinion, the price of certain SIV securities used in recent transactions were from distressed sales and did not represent the implied fair value of the SIV securities held by the Company or by the SEI-sponsored money market funds.

The fair value of certain financial assets and liabilities of the Company was determined using the following inputs at June 30, 2009:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Equity available-for-sale securities | $ 20,085 | $ 20,085 | $ | $ |
| Fixed income available-for-sale securities | 49,034 | | 49,034 | |
| Trading securities issued by SIVs | 91,564 | | | 91,564 |
| Other trading securities | 4,612 | 4,612 | | |
| | $ 165,295 | $ 24,697 | $ 49,034 | $ 91,564 |
| Liabilities | | | | |
| Capital Support Agreement | $ 29,973 | $ | $ | $ 29,973 |
| | $ 29,973 | $ | $ | $ 29,973 |

The fair value of certain financial assets and liabilities of the Company was determined using the following inputs at December 31, 2008:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Equity available-for-sale securities | $ 17,747 | $ 17,747 | $ | $ |
| Fixed-income available-for-sale securities | 57,633 | | 57,633 | |
| Trading securities issued by SIVs | 5,713 | | | 5,713 |
| Other trading securities | 5,600 | 3,903 | | 1,697 |
| | $ 86,693 | $ 21,650 | $ 57,633 | $ 7,410 |
| Liabilities | | | | |
| Capital Support Agreements | $ 173,983 | $ | $ | $ 173,983 |
| | $ 173,983 | $ | $ | $ 173,983 |

The table below presents a reconciliation for all assets and liabilities of the Company measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2009 to June 30, 2009:

| | Trading Securities Issued by SIVs | Other Trading Securities | Capital Support Agreements |
|---|---|---|---|
| Balance, January 1, 2009 | $ 5,713 | $ 1,697 | $ (173,983) |
| Purchases, issuances and settlements, net | 246,563 | (1,536) | |
| Total gains or losses (realized/unrealized): | | | |
| Included in earnings | (160,712) | (161) | 144,010 |
| Included in other comprehensive income | | | |
| Transfers in and out of Level 3 | | | |
| Balance June 30, 2009 | $ 91,564 | $ | $ (29,973) |

Losses from Trading securities issued by SIVs is primarily due to the purchase of SIV securities from SEI-sponsored money market mutual funds during the six months ended June 30, 2009 and are recognized in Net loss from investments on the accompanying Consolidated Statements of Operations (See Note 7).

The $144,010 included in earnings for the Company s Capital Support Agreements primarily relates to the reduction in the Company s obligation related to the Capital Support Agreements as a result of the Company s purchase of SIV securities from SEI-sponsored money market funds during the six months ended June 30, 2009 and is recognized in Net loss from investments on the accompanying Consolidated Statements of Operations (See Note 7).

The table below presents a reconciliation for all assets and liabilities of the Company measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2008 to June 30, 2008:

| | Trading Securities Issued by SIVs | Other Trading Securities | Capital Support Agreements |
|---|---|---|---|
| Balance, January 1, 2008 | $ | $ | $ (25,122) |
| Total gains or losses (realized/unrealized): | | | |
| Included in earnings | | | (53,096) |
| Included in other comprehensive income | | | |
| Purchases, issuances and settlements | | | |
| Transfers in and out of Level 3 | | | |
| Balance, June 30, 2008 | $ | $ | $ (78,218) |

The $53,096 recognized in earnings relates to the change in fair value of the Capital Support Agreements during the six months ended June 30, 2008 and is recognized in Net loss from investments on the accompanying Consolidated Statements of Operations (See Note 7).

**Note 6. Marketable Securities and Derivative Instruments**

Investments Available for Sale

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

| | As of June 30, 2009 | | | |
|---|---|---|---|---|
| | Cost Amount | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| SEI-sponsored mutual funds | $ 18,297 | $ | $ (1,286) | $ 17,011 |
| Other mutual funds | 3,485 | | (411) | 3,074 |
| Debt securities | 47,604 | 1,430 | | 49,034 |
| | $ 69,386 | $ 1,430 | $ (1,697) | $ 69,119 |

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | Cost Amount | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| SEI-sponsored mutual funds | $ 18,739 | $ | $ (3,759) | $ 14,980 |
| Other mutual funds | 3,336 | | (569) | 2,767 |
| Debt securities | 55,762 | 1,871 | | 57,633 |
| | $ 77,837 | $ 1,871 | $ (4,328) | $ 75,380 |

Net unrealized holding losses at June 30, 2009 were $51 (net of income tax benefit of $216). Net unrealized holding losses at December 31, 2008 were $1,524 (net of income tax benefit of $933). These net unrealized losses are reported as a separate component of Accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets.

During the three months ended June 30, 2009, the Company recognized gross realized gains from available-for-sale securities of $23. There were no realized gains recognized during the three months ended June 30, 2008. During the six months ended June 30, 2009 and 2008, the Company recognized gross realized gains from available-for-sale securities of $61 and $1,066, respectively. These gains are included in Net loss from investments on the accompanying Consolidated Statements of Operations. There were no realized losses recognized during the six months ended June 30, 2009 and 2008.

The Company has investments in two SEI-sponsored mutual funds which primarily invest in fixed-income securities, including debt securities issued by municipalities and mortgage-backed securities. The market value of these investments has steadily decreased since the initial purchase in 2007. In August 2008, management concluded that the earnings potential and near term prospects of some of the issuers of the underlying securities held in the funds are uncertain and that it was unlikely the investments will fully recover from a loss position in the foreseeable future. Due to these factors, the Company wrote-down the cost basis for these investments to their current market value in August 2008. Subsequently, the market value of these securities declined further and both securities were in an unrealized loss position. In June 2009, management determined it was unlikely that one of these securities would recover to its cost basis in the foreseeable future. Therefore, the Company recognized an Other-than-temporary impairment charge of $901 during the three months ended June 30, 2009 for that security. The Other-than-temporary impairment charge is included in Net loss from investments on the accompanying Consolidated Statement of Operations. The market value of the second investment has increased substantially in the second quarter but remains in an unrealized loss position of $944 at June 30, 2009. The Company has the ability and the intent to hold onto this security for a sufficient period of time to allow for a recovery. The Company continually evaluates its assessment of its investments on an ongoing basis.

The Company has investments included in Other mutual funds that have been in an unrealized loss position for a period of less than one year. These mutual funds primarily invest in a diversified mix of equity and fixed-income securities. The cost basis of these investments was $3,439 with a fair value

of $3,028 and a gross unrealized loss of $411. Management did not record an other-than-temporary impairment charge at June 30, 2009 due to its assessment regarding the correlation of the decline in market value of these investments to the volatility in the capital markets and the Company s ability and intent to hold onto these securities for a sufficient duration to allow for a recovery.

On March 31, 2008, the Company s derivative equity contracts held for the purpose of hedging market risk of certain available for sale securities reached their contractual maturity date. These derivatives were held for the purpose of hedging such risk and not for speculation. The Company no longer owns any derivative financial instruments to hedge market risk of available for sale securities. Net loss from investments on the accompanying Consolidated Statements of Operations for the six months ended June 30, 2008 includes net gains of $676 from changes in the fair value of derivative instruments.

The Company s debt securities are issued by the Government National Mortgage Association and are backed by the full faith and credit of the U.S. government. These securities were purchased to satisfy applicable regulatory requirements of SEI Private Trust Company (SPTC) and have maturity dates which range from 2020 to 2038.

Trading Securities

Trading securities of the Company consist of:

| | As of June 30, 2009 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| SIV securities | $ 261,597 | $ | $ (170,033) | $ 91,564 |
| LSV-sponsored mutual funds | 4,000 | 612 | | 4,612 |
| | $ 265,597 | $ 612 | $ (170,033) | $ 96,176 |

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| SIV securities | $ 15,034 | $ | $ (9,321) | $ 5,713 |
| LSV-sponsored mutual funds | 4,000 | | (97) | 3,903 |
| Other securities | 1,971 | | (274) | 1,697 |
| | $ 21,005 | $ | $ (9,692) | $ 11,313 |

The Company has elected the fair value option under SFAS 159 for all of its trading securities and the amount on the accompanying Consolidated Balance Sheet represents the fair value of all trading securities. Unrealized gains and losses from the change in fair value of these securities are recognized in Net loss from investments on the accompanying Consolidated Statements of Operations.

During the six months ended June 30, 2009, the Company recognized unrealized losses from trading securities of $160,165 primarily due to the purchase of SIV securities from SEI-sponsored money market mutual funds. The net impact from SIV-related issues to the Company s earnings was $16,702 during the six months ended June 30, 2009 primarily due to the reduction in the Company s obligation under the Capital Support Agreements as a result of the purchases of the SIV securities (See Note 7).

The Company has an investment related to the startup of a mutual fund sponsored by LSV. This is a U.S. dollar denominated fund that invests primarily in securities of Canadian and Australian companies as well as various other global securities. The underlying securities held by the fund are translated into U.S. dollars within the fund. The Company has purchased equity and currency futures contracts as part of an economic hedging strategy to minimize its exposure to price and currency risk inherent with this investment. The equity futures contracts had a notional value of $5,058 and are expected to hedge the price risk associated with movements of certain Canadian, Australian and global indices. The Company also purchased currency futures contracts with a notional value of $2,995 that are expected to hedge the currency risk associated with movements of the U.S. dollar against the Canadian and Australian dollars since the underlying securities of the fund are predominately denominated in those currencies. The fair value of the futures contracts are netted against the fair value of the investment in the LSV-sponsored fund. During the six months ended June 30, 2009, the Company recognized unrealized gains of $1,352 from the LSV-sponsored mutual fund and unrealized losses of $643 from the equity and currency futures contracts.

**Note 7. Capital Support Agreements**

In 2007, the Company entered into Capital Support Agreements with the SEI Daily Income Trust Prime Obligation Fund (the SDIT PO Fund), the SEI Daily Income Trust Money Market Fund (the SDIT MM Fund), and the SEI Liquid Asset Trust Prime Obligation Fund (SLAT PO Fund) (each a Fund or, together, the Funds). The Company is the advisor to the Funds. The sub-advisor to the Funds is Columbia Management, which is the primary investment management division of Bank of America Corporation. Among other money market instruments, the Funds hold senior notes issued by SIVs. Some of the SIVs ceased making payments on their outstanding notes on the scheduled maturity dates. The Company entered into the Capital Support Agreements to provide the necessary credit support related to the SIVs in default held by the Funds.

The Company purchased the remaining SIVs held by the SDIT MM Fund in September 2008 for a cash purchase price of $15,288. As a result of this purchase, the Capital Support Agreement with the SDIT MM fund was canceled.

In March 2009, the Company purchased all of the Gryphon (formerly Cheyne) notes from the SDIT PO Fund and the SLAT PO Fund for a total cash purchase price of $194,913. As a result of this purchase, the Company recognized a loss of $129,932 and the Company s obligation according to the Amended Capital Support Agreements was reduced by $116,038 for a net charge of $13,894.

In June 2009, the Company purchased the remaining SIV securities owned by the SLAT PO Fund for a cash purchase price of $57,490. As a result of this purchase, the Company recognized a loss of $31,184. The Company had previously recognized $25,564 in unrealized losses according to the Amended Capital Support Agreement. The net charge pertaining to this purchase was $5,620 in the three months ended June 30, 2009. The Amended Capital Support Agreement with the SLAT PO Fund was canceled immediately after the purchase of the SIV securities.

The total cash paid to the Funds for the purchases of the SIV securities through June 30, 2009 was $267,691. The purchase prices paid to the Funds were equal to the amortized cost of the SIV securities on the dates of purchase. In order to finance the purchases of the SIV securities, the Company borrowed an aggregate $254,000 through the Credit Facility. The letters of credit posted to collateralize the Company s obligation under the Capital Support Agreements were reduced from an aggregate $195,000 to $39,000 (See Note 8).

The SDIT PO Fund continues to hold one SIV security as of June 30, 2009 with a par value of $60,145. The Company s obligation under the Amended Capital Support Agreement with the SDIT PO Fund was $29,973 at June 30, 2009. The Amended Capital Support Agreement with the SDIT PO Fund is scheduled to terminate in November 2009; however, the Company expects to purchase the remaining SIV security from the SDIT PO Fund prior to the termination date of the agreement.

The Company recognized gains from the change in fair value and cash paydowns received from SIV securities of $3,360 and $2,812, respectively, during the three and six month periods ended June 30, 2009. Total SIV-related charges were $2,260 and $16,702 in the three and six months periods ended June 30, 2009, respectively. At June 30, 2009, the aggregate par value and market value of all SIV securities owned by the Company was $261,597 and $91,564, respectively.

The remaining Capital Support Agreement with the SDIT PO Fund is considered a derivative contract in accordance with applicable accounting guidance and is categorized as a Level 3 liability as specified by SFAS 157 (see Note 5). This Level 3 liability comprises 20 percent of the Company s total current liabilities at June 30, 2009. The fair value of the derivative contract approximates the value of the Company s actual obligation at June 30, 2009. The value of the Capital Support Agreement will be determined at least quarterly. In the event payments are not required to be paid to the SDIT PO Fund, such expense may be reversed in a subsequent period.

As of July 31, 2009, the amount which would be accrued for the Company s contribution obligation under the Amended Capital Support Agreement was $29,973. Based upon this valuation and assuming no other changes in the portfolio assets through September 30, 2009, no additional non-cash expense would be recorded in the three months ended September 30, 2009.

The Company s future obligation under the Amended Capital Support Agreement is affected by prevailing conditions in the credit markets as they impact the value of the SIV security owned by the SDIT PO Fund and the creditworthiness of the SIV security. The fair market value of the SIV security is derived from current market prices or, in the event no market price exists, from independent external valuation sources (See Note 5).

**Note 8. Lines of Credit**

The Company has a five-year $300,000 Credit Agreement (the Credit Facility) which expires in July 2012, at which time any aggregate principal amount of loans outstanding becomes payable in full. Any borrowings made under the Credit Facility will accrue interest at 0.75 percent per annum above the London Interbank Offer Rate ( LIBOR ). There is also a commitment fee equal to 0.15 percent per annum on the daily unused portion of the facility. The aggregate amount of the Credit Facility may be increased by an additional $100,000 to $400,000 under certain conditions set forth in the agreement. The Credit Facility, as amended, 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.

In 2009, the Company purchased SIV securities from the SEI-sponsored money market mutual funds (See Note 7). In order to finance the purchases of the SIV securities, the Company borrowed $254,000 from the Credit Facility. As a result of the purchases, the letters of credit posted to collateralize the Company s obligations under the Amended Capital Support Agreements were reduced from an aggregate $195,000 to $39,000. The Company was in compliance with all covenants of the Credit Facility during 2009.

As of June 30, 2009, the Company s ability to borrow from the Credit Facility is not limited by any covenant of the agreement. In management s opinion, the leverage ratio is the most restrictive of all of the covenants contained in the Credit Facility. The leverage ratio is calculated as consolidated indebtedness divided by earnings before interest, taxes, depreciation, amortization and other items as defined by the covenant during the last four quarters (EBITDA). The amount of consolidated indebtedness according to the terms of the covenant includes the capital commitment under the Amended Capital Support Agreements and the outstanding debt of LSV Employee Group. The Company must maintain at all times prior to and including September 30, 2009, a ratio of consolidated indebtedness of not more than 2.25 times the amount of EBITDA, at all times from October 1, 2009 through and including December 31, 2009, not more than 2.00 times EBITDA, and at all times thereafter, not more than 1.75 times EBITDA. As of June 30, 2009, the Company s leverage ratio is 1.36 times EBITDA.

Through the Credit Facility, the Company provided letters of credit of a third party bank to secure the existing obligations of the Company under the Amended Capital Support Agreements. As of June 30, 2009, the Company had a total of $39,000 in outstanding letters of credit. The letters of credit have a term of one year and contain a fronting fee of 0.125 percent per annum on the face amount of each letter of credit which is payable quarterly in arrears. In addition, a participation fee ranging from 0.45 percent to 1.25 percent, depending upon the Company s leverage ratio, is payable quarterly in arrears on the face amount of each letter of credit. The participation fee may increase if the Company s leverage ratio reaches certain levels. As the letters of credit remain outstanding, the amount available under the Credit Facility will be reduced by the face amount of the letters of credit. The letters of credit are due to expire in November and early December 2009.

As of July 31, 2009, letters of credit of $39,000 to secure the existing obligations of the Company under the Amended Capital Support Agreements remained outstanding. The amount of the Credit Facility that is unrestricted and available for other purposes as determined by the Company is $7,000.

The Company considers the book value of long-term debt related to the borrowings through the Credit Facility to be representative of its fair value.

The Company s Canadian subsidiary has a credit facility agreement (the Canadian Credit Facility) for the purpose of facilitating the settlement of mutual fund t