

SEI INVESTMENTS CO  
Form 10-Q  
August 02, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)\*

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2012

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)

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SEI INVESTMENTS COMPANY  
(Exact name of registrant as specified in its charter)

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

23-1707341  
(IRS Employer Identification Number)

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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 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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of July 31, 2012 was 173,556,605.

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SEI Investments Company

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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

SEI Investments Company  
Consolidated Balance Sheets  
(unaudited)  
(In thousands)

	June 30, 2012	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	\$347,494	\$420,986
Restricted cash	6,000	6,000
Receivables from regulated investment companies	33,681	25,800
Receivables, net of allowance for doubtful accounts of \$820 and \$924 (Note 4)	168,913	142,109
Deferred income taxes	455	1,150
Securities owned (Note 6)	21,057	20,949
Other current assets	17,810	17,957
Total Current Assets	595,410	634,951
Property and Equipment, net of accumulated depreciation of \$191,976 and \$182,453 (Note 4)	135,011	129,548
Capitalized Software, net of accumulated amortization of \$131,631 and \$117,100	312,815	309,133
Investments Available for Sale (Note 6)	81,238	83,008
Trading Securities (Note 6)	53,253	56,325
Investment in Unconsolidated Affiliate (Note 2)	63,553	60,954
Other Assets, net	23,582	20,640
Total Assets	\$1,264,862	\$1,294,559

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

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SEI Investments Company  
 Consolidated Balance Sheets  
 (unaudited)  
 (In thousands, except par value)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$3,850	\$1,999
Accrued liabilities (Note 4)	100,902	147,044
Deferred revenue	631	2,030
Total Current Liabilities	105,383	151,073
Deferred Income Taxes	91,819	93,751
Other Long-term Liabilities (Note 11)	10,632	8,276
Total Liabilities	207,834	253,100
Commitments and Contingencies (Note 12)		
Equity:		
SEI Investments shareholders' equity:		
Common stock, \$.01 par value, 750,000 shares authorized; 173,374 and 176,506 shares issued and outstanding	1,734	1,765
Capital in excess of par value	588,419	577,949
Retained earnings	447,812	443,702
Accumulated other comprehensive income, net	2,137	1,900
Total SEI Investments shareholders' equity	1,040,102	1,025,316
Noncontrolling interest	16,926	16,143
Total Equity	1,057,028	1,041,459
Total Liabilities and Equity	\$1,264,862	\$1,294,559

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

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SEI Investments Company  
Consolidated Statements of Operations  
(unaudited)  
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Asset management, administration and distribution fees	\$176,613	\$172,331	\$349,567	\$339,835
Information processing and software servicing fees	57,254	56,035	113,454	111,859
Transaction-based and trade execution fees	7,370	9,394	16,114	18,559
Total revenues	241,237	237,760	479,135	470,253
<b>Expenses:</b>				
Subadvisory, distribution and other asset management costs	25,884	26,304	54,351	52,600
Software royalties and other information processing costs	5,228	7,188	11,705	14,205
Brokerage commissions	5,634	6,599	11,941	13,180
Compensation, benefits and other personnel	80,531	72,613	159,074	143,638
Stock-based compensation	3,865	3,810	7,898	7,542
Consulting, outsourcing and professional fees	26,329	29,398	53,284	55,396
Data processing and computer related	11,659	11,610	23,124	22,913
Facilities, supplies and other costs	15,272	14,098	29,780	28,200
Amortization	7,407	6,792	15,029	13,023
Depreciation	5,630	5,391	11,062	11,002
Total expenses	187,439	183,803	377,248	361,699
Income from operations	53,798	53,957	101,887	108,554
Net gain (loss) from investments	664	(1,948)	3,869	5,330
Interest and dividend income	1,440	1,436	2,927	2,980
Interest expense	(113)	(155)	(274)	(359)
Equity in earnings of unconsolidated affiliate	22,712	29,530	50,042	58,479
Net income before income taxes	78,501	82,820	158,451	174,984
Income taxes	28,762	28,707	58,477	62,831
Net income	49,739	54,113	99,974	112,153
Less: Net income attributable to the noncontrolling interest	(184)	(510)	(454)	(822)
Net income attributable to SEI Investments Company	\$49,555	\$53,603	\$99,520	\$111,331
Basic earnings per common share	\$0.28	\$0.29	\$0.57	\$0.60
Shares used to compute basic earnings per share	174,830	184,585	175,589	185,186
Diluted earnings per common share	\$0.28	\$0.29	\$0.56	\$0.59
Shares used to compute diluted earnings per share	175,913	187,020	176,791	187,757
Dividends declared per common share	\$0.15	\$0.12	\$0.15	\$0.12

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

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SEI Investments Company  
 Consolidated Statements of Comprehensive Income  
 (unaudited)  
 (In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$49,739	\$54,113	\$99,974	\$112,153
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(2,156 )	1,467	547	4,295
Unrealized holding gain on investments:				
Unrealized holding gains during the period, net of income taxes of \$70, \$348, \$77 and \$236	25	816	56	646
Less: reclassification adjustment for losses (gains) realized in net income, net of income taxes of \$12, \$(15), \$(23) and \$(75)	23	(28 )	(37 )	(131 )
Total other comprehensive income, net of tax	(2,108 )	2,255	566	4,810
Comprehensive income	\$47,631	\$56,368	\$100,540	\$116,963
Comprehensive income attributable to the noncontrolling interest	(30 )	(1,015 )	(783 )	(1,747 )
Comprehensive income attributable to SEI Investments Company	\$47,601	\$55,353	\$99,757	\$115,216

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)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$99,974	\$112,153
Adjustments to reconcile net income to net cash provided by operating activities	(24,861	) (19,313 )
Net cash provided by operating activities	75,113	92,840
Cash flows from investing activities:		
Additions to property and equipment	(16,344	) (6,973 )
Additions to capitalized software	(18,214	) (20,537 )
Purchases of marketable securities	(13,827	) (36,596 )
Prepayments and maturities of marketable securities	22,170	23,134
Sales of marketable securities	737	37,408
Purchases of other investments	(2,720	) —
Sales of other investments	—	4,905
Net cash (used in) provided by investing activities	(28,198	) 1,341
Cash flows from financing activities:		
Payments on long-term debt	—	(55,000 )
Purchase and retirement of common stock	(80,899	) (94,137 )
Proceeds from issuance of common stock	14,765	20,845
Tax benefit on stock options exercised	(1,638	) 2,171
Payment of dividends	(52,635	) (22,041 )
Net cash used in financing activities	(120,407	) (148,162 )
Net decrease in cash and cash equivalents	(73,492	) (53,981 )
Cash and cash equivalents, beginning of period	420,986	496,292
Cash and cash equivalents, end of period	\$347,494	\$442,311

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



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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, investment management, and investment operations 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 consist of application and business process outsourcing services, professional services and transaction-based services. 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.

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.

Investment operations solutions offer investment managers support for traditional investment products such as mutual funds, collective investment trusts, exchange-traded funds, and institutional and separate accounts, by providing outsourcing services including fund and investment accounting, administration, reconciliation, investor servicing and client reporting. These solutions also provide support to managers focused on alternative investments who manage hedge funds, funds of hedge funds, private equity funds and real estate funds, across registered, partnership and separate account structures domiciled in the United States and overseas. Revenues from investment operations solutions 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. 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 statement of financial position of the Company as of June 30, 2012, the results of operations for the three and six months ended June 30, 2012 and 2011, and cash flows for the six month periods ended June 30, 2012 and 2011. 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, 2011.

There have been no significant changes in significant accounting policies during the six months ended June 30, 2012 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Cash and Cash Equivalents

Cash and cash equivalents includes \$185,240 and \$281,760 at June 30, 2012 and December 31, 2011, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds.

Restricted Cash

Restricted cash includes \$5,000 at June 30, 2012 and December 31, 2011 segregated for regulatory purposes related to trade-execution services conducted by SEI Investments (Europe) Limited. Restricted cash also includes \$1,000 at June 30, 2012 and December 31, 2011 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 \$18,214 and \$20,537 of software development costs during the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 10.0 years. Amortization expense related

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to capitalized software was \$14,531 and \$12,532 during the six months ended June 30, 2012 and 2011, respectively. Software development costs capitalized during the six months ended June 30, 2012 and 2011 relates to the continued development of the Global Wealth Platform (GWP). As of June 30, 2012, the net book value of GWP was \$302,829, net of accumulated amortization of \$102,059. Capitalized software development costs in-progress at June 30, 2012 associated with future releases to GWP were \$9,328. GWP has an estimated useful life of 15 years and a weighted average remaining life of 10.0 years. Amortization expense for GWP was \$14,297 and \$12,249 during the six months ended June 30, 2012 and 2011, respectively.

**Earnings per Share**

The calculations of basic and diluted earnings per share for the three months ended June 30, 2012 and 2011 are:

	For the Three Months Ended June 30, 2012		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$49,555	174,830	\$0.28
Dilutive effect of stock options	—	1,083	
Diluted earnings per common share	\$49,555	175,913	\$0.28

	For the Three Months Ended June 30, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$53,603	184,585	\$0.29
Dilutive effect of stock options	—	2,435	
Diluted earnings per common share	\$53,603	187,020	\$0.29

Employee stock options to purchase 16,637,000 and 7,675,000 shares of common stock, with an average exercise price of \$22.75 and \$28.25, were outstanding during the three months ended June 30, 2012 and 2011, 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, 2012 and 2011 are:

	For the Six Months Ended June 30, 2012		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$99,520	175,589	\$0.57
Dilutive effect of stock options	—	1,202	
Diluted earnings per common share	\$99,520	176,791	\$0.56

	For the Six Months Ended June 30, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$111,331	185,186	\$0.60
Dilutive effect of stock options	—	2,571	
Diluted earnings per common share	\$111,331	187,757	\$0.59

Employee stock options to purchase 14,017,000 and 7,606,000 shares of common stock, with an average exercise price of \$23.40 and \$28.26, were outstanding during the six months ended June 30, 2012 and 2011, 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.



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## 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:

	2012	2011
Net income	\$99,974	\$112,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,062	11,002
Amortization	15,029	13,023
Equity in earnings of unconsolidated affiliate	(50,042	) (58,479
Distributions received from unconsolidated affiliate	47,443	50,760
Stock-based compensation	7,898	7,542
Provision for losses on receivables	(104	) (327
Deferred income tax expense	(1,291	) (36
Net realized gains from investments	(3,869	) (5,330
Change in other long-term liabilities	2,356	1,904
Change in other assets	(916	) (1,658
Other	657	3,858
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from regulated investment companies	(7,881	) (1,953
Receivables	(26,992	) (15,353
Other current assets	147	(211
Increase (decrease) in		
Accounts payable	1,851	(1,727
Accrued liabilities	(18,810	) (21,081
Deferred revenue	(1,399	) (1,247
Total adjustments	(24,861	) (19,313
Net cash provided by operating activities	\$75,113	\$92,840

## Note 2. Investment in Unconsolidated Affiliate

The Company has an investment in the general partnership LSV Asset Management (LSV). LSV is 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 small number of SEI-sponsored mutual funds. The Company accounts for its interest in LSV using the equity method because of its less than 50 percent ownership. The Company's interest in the net assets of LSV is reflected in Investment in unconsolidated affiliate on the accompanying Consolidated Balance Sheets and its interest in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliate on the accompanying Consolidated Statements of Operations.

As of December 31, 2011, the Company's total partnership interest in LSV was approximately 41.2 percent. In March 2009, certain partners (the Contributing partners) of LSV, including the Company, designated a portion of their partnership interest for the purpose of providing an interest in the partnership to a select group of key employees. Until such time an interest in the partnership is issued to a key employee, all profits, losses, distributions and other rights and obligations relating to such unissued interests remains with the Contributing partners. Each issuance must be authorized by unanimous vote of all Contributing partners. In April 2012, the Contributing partners agreed to provide certain key employees an interest in LSV, thereby reducing the Company's interest in LSV to approximately 39.8 percent.

At June 30, 2012, the Company's total investment in LSV was \$63,553. The investment in LSV exceeded the underlying equity in the net assets of LSV by \$3,499, of which \$3,062 is considered goodwill embedded in the investment. The Company

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receives partnership distributions from LSV on a quarterly basis. The Company received partnership distribution payments from LSV for \$47,443 and \$50,760 in the six months ended June 30, 2012 and 2011, respectively. The Company's proportionate share in the earnings of LSV was \$22,712 and \$29,530 during the three months ended June 30, 2012 and 2011, respectively. During the six months ended June 30, 2012 and 2011, the Company's proportionate share in the earnings of LSV was \$50,042 and \$58,479, respectively. The following table contains the condensed statements of operations of LSV for the three months ended June 30, 2012 and 2011:

	Three Months Ended	
	June 30,	
	2012	2011
Revenues	\$69,189	\$81,748
Net income	57,372	72,018

The following table contains the condensed statements of operations of LSV for the six months ended June 30, 2012 and 2011:

	Six Months Ended	
	June 30,	
	2012	2011
Revenues	\$146,654	\$161,150
Net income	124,045	141,964

**Guaranty Agreement**

In April 2011, LSV Employee Group II, LLC agreed to purchase a partnership interest of an existing LSV employee for \$4,300, of which \$3,655 was financed through a term loan with Bank of America, N.A. (Bank of America). The Company provided an unsecured guaranty to the lenders of all the obligations of LSV Employee Group II, LLC. The lenders have the right to seek payment from the Company in the event of a default by LSV Employee Group II, LLC. The term loan has a four year term and will be repaid from the quarterly distributions of LSV. LSV Employee Group II made principal payments of \$468 during the six months ended June 30, 2012. As of June 30, 2012, the remaining unpaid principal balance of the term loan was \$2,729. This amount is not reflected, nor is it required to be reflected, in the Company's Consolidated Balance Sheet at June 30, 2012.

The Company's direct interest in LSV is unchanged as a result of this transaction. The Company has determined that LSV Employee Group II is a variable interest entity (VIE); however, the Company is not considered the primary beneficiary because it does not have the power to direct the activities that most significantly impact the economic performance of LSV Employee Group II either directly or through any financial responsibility from the guaranty. In July 2012, LSV Employee Group II made a principal payment of \$272. As of July 31, 2012, the remaining unpaid principal balance of the term loan was \$2,457. The Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group II and, furthermore, fully expects that LSV Employee Group II will meet all of their future obligations regarding the term loan.

**Note 3. Variable Interest Entities – Investment Products**

The Company has created numerous investment products for its clients in various types of legal entity structures. The Company serves as the Manager, Administrator and Distributor for these investment products and may also serve as the Trustee for some of the investment products. Clients are the equity investors and participate in proportion to their ownership percentage in the net income and net capital gains of the products, and, on liquidation, will participate in proportion to their ownership percentage in the remaining net assets of the products after satisfaction of outstanding liabilities. Some of the Company's investment products have been determined to be VIEs at inception.

The Company does not have a significant equity investment in any of the VIEs and does not have an obligation to enter into any guarantee agreements with the VIEs. The Company is not the primary beneficiary of the VIEs because the expected fees and the expected return on any investment into the VIE by the Company relative to the expected

returns of the VIE to the equity investor holders does not approach 50 percent of the expected losses or gains of the VIEs. Therefore, the Company is not required to consolidate any investment products that are VIEs into its financial statements. The Company's variable interest in

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the VIEs, which consists of management fees and in some situations, seed capital, is not considered a significant variable interest.

The risks to the Company associated with its involvement with any of the investment products that are VIEs are limited to the cash flows received from the revenue generated for asset management, administration and distribution services and any equity investments in the VIEs. Both of these items are not significant. The Company has no other financial obligation to the VIEs.

Amounts relating to fees received from the VIEs included in Receivables and amounts relating to equity investments in the VIEs included in Investments Available for Sale on the Company's Consolidated Balance Sheets are not significant to the total assets of the Company.

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

##### Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	June 30, 2012	December 31, 2011
Trade receivables	\$43,162	\$37,822
Fees earned, not billed	110,853	92,916
Other receivables	15,718	12,295
	169,733	143,033
Less: Allowance for doubtful accounts	(820	) (924
	\$168,913	\$142,109

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. In addition, certain fees earned from investment operations services are determined from security valuations which delay billings to clients.

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, 2012	December 31, 2011
Buildings	\$137,421	\$136,949
Equipment	65,884	64,256
Land	9,929	9,929
Purchased software	90,580	77,971
Furniture and fixtures	18,245	17,999
Leasehold improvements	4,820	4,558
Construction in progress	108	339
	326,987	312,001
Less: Accumulated depreciation	(191,976	) (182,453
Property and Equipment, net	\$135,011	\$129,548

The Company recognized \$11,062 and \$11,002 in depreciation expense related to property and equipment for the six months ended June 30, 2012 and 2011, respectively.



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## Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	June 30, 2012	December 31, 2011
Accrued employee compensation	\$31,728	\$48,112
Accrued employee benefits and other personnel	5,359	5,408
Accrued consulting, outsourcing and professional fees	16,850	17,477
Accrued brokerage fees	7,586	8,665
Accrued sub-advisory, distribution and other asset management fees	16,657	17,091
Accrued dividend payable	—	26,518
Other accrued liabilities	22,722	23,773
Total accrued liabilities	\$100,902	\$147,044

## Note 5. Fair Value Measurements

The fair value of the Company's financial assets and liabilities is determined in accordance with the fair value hierarchy. The fair value of the Company's Level 1 financial assets consist mainly of investments in equity and fixed-income mutual funds that are quoted daily. Level 2 financial assets consist of Government National Mortgage Association (GNMA) and other U.S. government agency securities that are single issuer pools that are valued based on current market data for the specific issue owned or pools of similar securities. Level 3 financial assets primarily consist of senior note obligations issued by SIVs. The Company had no Level 3 financial liabilities at June 30, 2012 or December 31, 2011. There were no transfers of financial assets between levels within the fair value hierarchy during the six months ended June 30, 2012.

## Valuation of GNMA and Other U.S. Government Agency Securities

All of the Company's GNMA and other U.S. government agency securities are held in accounts at well-established financial institutions that utilize the services of independent pricing vendors. These vendors utilize evaluated and industry accepted pricing models that vary by asset class and incorporate available trade, bid and other market information to determine the fair value of the securities. The market inputs normally used for evaluations of securities, listed in approximate order of priority, include: benchmark yields, reported trade, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The Company records the securities at the prices provided by the independent pricing vendor without adjustment.

## Valuation of SIV Securities

The underlying collateral of the SIV securities is mainly comprised of asset-backed securities and collateralized debt obligations. The Company utilizes the services of an independent firm that specializes in securities valuations to assist in determining the fair value of the SIV security owned. Given the lack of any reliable market data on the SIV security, the firm utilized a valuation model that employs a net asset approach which considers the value of the underlying collateral of the SIV security to determine its fair value. Management evaluated the value received from the firm and considered other information, such as the existence of any current market activity, to determine the fair value of the SIV securities. As a result of this evaluation, the Company utilized the fair value of the SIV security without adjustment as provided by the independent valuation firm.

The model used by the independent valuation firm to determine the fair value of the SIV security attempts to value the underlying collateral of the SIV security through the use of industry accepted and proprietary valuation techniques and models. This approach combines advanced analytics with real-time market information that incorporate structural and fundamental analysis, collateral characteristics and recent market developments. Each security that makes up the underlying collateral is specifically identified by its CUSIP or ISIN number and is analyzed by using observable collateral characteristics and credit statistics in order to project future performance and expected cash flows for each individual security. The projected cash flows incorporate assumptions and expectations based upon the foregoing analysis of the collateral characteristics such as, but not limited to, default probabilities, recovery rates, prepayment

speeds and loss severities. Expected future cash flows are discounted at an appropriate yield derived from the individual security, structural and collateral characteristics, trading levels and other available market data. Different modeling techniques and associated inputs and assumptions may be used to project future cash flows for each security depending upon the asset classification of that individual security (i.e. residential mortgage-backed security, commercial mortgage-backed security, collateralized debt obligations, etc.). The aggregate value of the discounted cash flows of the underlying collateral is compared to the total remaining par value of the collateral to determine the expected recovery price, or fair value, of the remaining note obligations. Other factors may be considered that are specific to the SIV security that may affect the fair value of the SIV security.

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Management may also consider, when available, price quotes from brokers and dealers. If a price quote is available, management will compare this number to the fair value derived from the valuation model of the independent firm giving consideration to other market factors and risk premiums. Given the lack of any significant trading activity for the SIV security owned by the Company, management believes that market prices may not represent the implied fair value of the SIV security owned by the Company.

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 for the SIV security. In management's opinion, the current market for the SIV security does not represent any orderly and efficient market.

The fair value of certain financial assets and liabilities of the Company was determined using the following inputs:

At June 30, 2012				
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	\$12,453	\$12,453	\$—	\$—
Fixed income available-for-sale securities	68,785	—	68,785	—
Fixed income securities owned	21,057	—	21,057	—
Trading securities	53,253	3,865	—	49,388
	\$155,548	\$16,318	\$89,842	\$49,388

At December 31, 2011				
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	\$8,010	\$8,010	\$—	\$—
Fixed income available-for-sale securities	74,998	—	74,998	—
Fixed income securities owned	20,949	—	20,949	—
Trading securities	56,325	3,702	—	52,623
	\$160,282	\$11,712	\$95,947	\$52,623

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, 2012 to June 30, 2012:

Balance, January 1, 2012	Trading Securities \$ 52,623
Purchases	—
Issuances	—

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Principal prepayments and settlements	(7,176	)
Sales	—	
Total gains or (losses) (realized/unrealized):		
Included in earnings	3,941	
Included in other comprehensive income	—	
Transfers in and out of Level 3	—	
Balance, June 30, 2012	\$ 49,388	

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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, 2011 to June 30, 2011:

	Trading Securities
Balance, January 1, 2011	\$ 100,645
Purchases	—
Issuances	—
Principal prepayments and settlements	(10,806 )
Sales	(34,706 )
Total gains or (losses) (realized/unrealized):	
Included in earnings	4,920
Included in other comprehensive income	—
Transfers in and out of Level 3	—
Balance, June 30, 2011	\$ 60,053

## Note 6. Marketable Securities

## Investments Available for Sale

Investments available for sale classified as non-current assets consist of:

	At June 30, 2012			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SEI-sponsored mutual funds	\$12,736	\$11	\$(326)	) \$12,421
Other mutual funds	28	4	—	32
Debt securities	64,309	4,476	—	68,785
	\$77,073	\$4,491	\$(326)	) \$81,238
	At December 31, 2011			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SEI-sponsored mutual funds	\$8,243	\$48	\$(360)	) \$7,931
Other mutual funds	69	10	—	79
Debt securities	70,604	4,394	—	74,998
	\$78,916	\$4,452	\$(360)	) \$83,008

Net unrealized holding gains at June 30, 2012 and December 31, 2011 were \$2,593 (net of income tax expense of \$1,572) and \$2,574 (net of income tax expense of \$1,518), respectively. These net unrealized gains are reported as a separate component of Accumulated other comprehensive income on the accompanying Consolidated Balance Sheets. There were no material gross realized gains or losses from available-for-sale securities during the six months ended June 30, 2012 and 2011. Gains and losses from available-for-sale securities are reflected in Net gain from investments on the accompanying Consolidated Statements of Operations.

The Company's debt securities classified as available-for-sale securities are issued by GNMA 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 2041.

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## Trading Securities

Trading securities of the Company consist of:

	At June 30, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SIV securities	\$ 139,188	\$—	\$(91,001)	) \$48,187
LSV-sponsored mutual funds	2,049	1,816	—	3,865
Other investments	1,215	—	(14)	) 1,201
	\$142,452	\$1,816	\$(91,015)	) \$53,253

  

	At December 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SIV securities	\$ 146,363	\$—	\$(94,955)	) \$51,408
LSV-sponsored mutual funds	2,049	1,653	—	3,702
Other investments	1,215	—	—	1,215
	\$149,627	\$1,653	\$(94,955)	) \$56,325

The Company records all of its trading securities on the accompanying Consolidated Balance Sheets at fair value. Unrealized gains and losses from the change in fair value of these securities are recognized in Net gain from investments on the accompanying Consolidated Statements of Operations.

During the six months ended June 30, 2012 and 2011, the Company recognized gains from SIV securities of \$3,954 and \$4,920, respectively. Of the gains recognized during the six months ended June 30, 2012, \$4,463 resulted from cash payments received from the SIV securities offset by losses of \$509 which resulted from a decrease in fair value at June 30, 2012. Of the gains recognized during the six months ended June 30, 2011, \$6,232 resulted from cash payments received from the SIV securities offset by losses of \$1,312 which resulted from a decrease in fair value at June 30, 2011. The net gains from the SIV securities are reflected in Net gain from investments on the accompanying Consolidated Statements of Operations.

In January 2011, the Company sold the senior note obligation originally issued by Stanfield Victoria. There was no gain or loss recognized by the Company from the sale of the note in 2011 as the fair value of the Stanfield Victoria note at December 31, 2010 was not different than the sale price received.

The Company has an investment related to the startup of mutual funds sponsored by LSV. These are U.S. dollar denominated funds that invests primarily in securities of Canadian and Australian companies as well as various other global securities. The underlying securities held by the funds are translated into U.S. dollars within the funds. The net gains (losses) from the change in fair value of the funds during the three and six months ended June 30, 2012 and 2011 were minimal.

## Securities Owned

The Company's broker-dealer subsidiary, SIDCO, has investments in U.S. government agency and commercial paper securities with maturity dates less than one year. These investments are 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 \$21,057 and \$20,949 at June 30, 2012 and December 31, 2011, respectively. The net gains (losses) from the change in fair value of the securities during the three and six months ended June 30, 2012 and 2011 were minimal.

## Note 7. Lines of Credit



On February 2, 2012 (the Closing Date), the Company entered into a new five-year \$300,000 Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association, and a syndicate of other lenders. The Credit Facility became available on the Closing Date and replaced the five-year Credit Agreement with JP Morgan Chase Bank, N.A. The Credit Facility is scheduled to expire in February 2017, 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 1.25 percent above 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

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Credit Facility may be increased by an additional \$100,000 under certain conditions set forth in the agreement. The Credit Facility contains covenants that restrict the ability of the Company to engage in mergers, consolidations, asset sales, investments, transactions with affiliates, or to incur liens, as defined in the agreement. In the event of a default under the Credit Facility, the Company would also be restricted from paying dividends on, or repurchasing, its common stock without the approval of the lenders. None of the covenants of the Credit Facility 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. Upon the occurrence of certain financial or economic events, significant corporate events, or certain other events of default constituting an event of default under the Credit Facility, all loans outstanding may be declared immediately due and payable and all commitments under the agreement may be terminated. The Company had no borrowings through the Credit Facility at June 30, 2012. The Company was in compliance with all covenants of the Credit Facility at June 30, 2012.

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 limited to \$2,000 Canadian dollars or the equivalent amount in U.S. dollars. The Canadian Credit Facility does not contain any covenants which restrict the liquidity or capital resources of the Company. The Company had no borrowings under the Canadian Credit Facility and was in compliance with all covenants during the three months ended June 30, 2012.

Note 8. Shareholders' Equity  
Stock-Based Compensation

The Company currently has one active equity compensation plan, the 2007 Equity Compensation Plan (the 2007 Plan), which 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. The Company has only granted non-qualified stock options under the plan. All outstanding stock options have performance-based vesting provisions specific to each option grant that tie the vesting of the applicable stock options to the Company's financial performance. The Company's stock options vest at a rate of 50 percent when specified diluted earnings per share targets are achieved, and the remaining 50 percent when secondary, higher specified diluted earnings per share targets are achieved. The amount of stock-based compensation expense is based upon management's estimate of when the earnings per share targets may be achieved.

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. No options are available for grant from this plan. Grants made from the 1998 Plan continue in effect under the terms of the grant.

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the three months ended June 30, 2012 and 2011, respectively, as follows:

	Three Months Ended June 30,	
	2012	2011
Stock-based compensation expense	\$3,865	\$3,810
Less: Deferred tax benefit	(1,376)	(1,427)
Stock-based compensation expense, net of tax	\$2,489	\$2,383

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the six months ended June 30, 2012 and 2011, respectively, as follows:

Six Months Ended  
June 30,

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	2012	2011
Stock-based compensation expense	\$7,898	\$7,542
Less: Deferred tax benefit	(2,808	) (2,825
Stock-based compensation expense, net of tax	\$5,090	\$4,717

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As of June 30, 2012, there was approximately \$41,397 of unrecognized compensation cost remaining, adjusted for estimated forfeitures, related to unvested employee stock options that management expects will vest and is being amortized. The Company estimates that compensation cost will be recognized according to the following schedule:

Period	Stock-Based Compensation Expense
Remainder of 2012	\$7,639
2013	12,715
2014	12,521
2015	3,850
2016	2,359
2017	2,313
	\$41,397

The Company issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the six months ended June 30, 2012 was \$4,327. The total options exercisable as of June 30, 2012 had an intrinsic value of \$26,977. The total intrinsic value for options exercisable is calculated as the difference between the market value of the Company's common stock as of June 30, 2012 and the exercise price of the shares. The market value of the Company's common stock as of June 30, 2012 was \$19.89 as reported by the Nasdaq Stock Market, LLC. The weighted average exercise price of the options exercisable as of June 30, 2012 was \$17.37. Total options that were outstanding and exercisable as of June 30, 2012 were 25,564,000 and 10,712,000, respectively.

**Common Stock Buyback**

The Company's Board of Directors, under multiple authorizations, has authorized the repurchase of the Company's common stock on the open market or through private transactions. The Company purchased 4,098,000 shares at a total cost of \$79,879 during the six months ended June 30, 2012. As of June 30, 2012, the Company has \$116,397 of authorization remaining for the purchase of common stock under the program.

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.

**Cash Dividend**

On May 23, 2012, the Board of Directors declared a cash dividend of \$0.15 per share on the Company's common stock, which was paid on June 26, 2012, to shareholders of record on June 18, 2012. Cash dividends declared during the six months ended June 30, 2012 and 2011 were \$26,117 and \$22,041, respectively.

**Noncontrolling Interest**

The following table provides a reconciliation of Noncontrolling interest on the Consolidated Balance Sheet for the period from January 1, 2012 to June 30, 2012:

	Noncontrolling interest
Balance, January 1, 2012	\$16,143
Net income attributable to noncontrolling interest	454
Foreign currency translation adjustments	329
Balance, June 30, 2012	\$16,926

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The following table provides a reconciliation of Noncontrolling interest on the Consolidated Balance Sheet for the period from January 1, 2011 to June 30, 2011:

	Noncontrolling interest
Balance, January 1, 2011	\$15,155
Net income attributable to noncontrolling interest	822
Foreign currency translation adjustments	925
Balance, June 30, 2011	\$16,902

Note 9. Accumulated Comprehensive Income  
Accumulated other comprehensive income, net of tax, consists of:

	Foreign Currency Translation Adjustments	Unrealized Holding Gains (Losses) on Investments	Accumulated Other Comprehensive Income
Total accumulated comprehensive income at December 31, 2011	\$(2,043	) \$2,574	\$531
Less: Total accumulated comprehensive loss attributable to noncontrolling interest at December 31, 2011	1,369	—	1,369
Total accumulated comprehensive income attributable to SEI Investments Company at December 31, 2011	\$(674	) \$2,574	\$1,900
Total comprehensive income for the six months ended June 30, 2012	\$547	\$19	\$566
Less: Total comprehensive income attributable to noncontrolling interest for the six months ended June 30, 2012	(329	) —	(329
Total comprehensive income attributable to SEI Investments Company for the six months ended June 30, 2012	\$218	\$19	\$237
Total accumulated comprehensive income at June 30, 2012	\$(1,496	) \$2,593	\$1,097
Less: Total accumulated comprehensive loss attributable to noncontrolling interest at June 30, 2012	1,040	—	1,040
Total accumulated comprehensive income attributable to SEI Investments Company at June 30, 2012	\$(456	) \$2,593	\$2,137

Note 10. Business Segment Information

The Company's reportable business segments are:

Private Banks – provides investment processing and investment management programs to banks and trust institutions worldwide, independent wealth advisers located in the United Kingdom, and financial advisers in Canada;

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, hospitals, and not-for-profit organizations worldwide;

Investment Managers – provides investment operations 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, funds of hedge funds, and private equity funds across both registered and partnership structures; and

Investments in New Businesses – provides investment management programs to ultra-high-net-worth families residing in the United States through the SEI Wealth Network® and conducts other research and development activities.

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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 six months ended June 30, 2012 and 2011. Management evaluates Company assets on a consolidated basis during interim periods. The accounting policies of the reportable business segments are the same as those described in Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The following tables highlight certain unaudited financial information about each of the Company's business segments for the three months ended June 30, 2012 and 2011.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total	
For the Three Months Ended June 30, 2012							
Revenues	\$88,303	\$49,375	\$55,895	\$46,713	\$951	\$241,237	
Expenses	84,886	29,025	28,740	30,163	3,684	176,498	
Operating profit (loss)	\$3,417	\$20,350	\$27,155	\$16,550	\$(2,733)	\$64,739	
Operating margin	4	% 41	% 49	% 35	% N/A	27	%

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total	
For the Three Months Ended June 30, 2011							
Revenues	\$87,873	\$49,768	\$54,731	\$44,452	\$936	\$237,760	
Expenses	86,274	27,734	27,406	29,282	2,920	173,616	
Operating profit (loss)	\$1,599	\$22,034	\$27,325	\$15,170	\$(1,984)	\$64,144	
Operating margin	2	% 44	% 50	% 34	% N/A	27	%

A reconciliation of the total reported for the business segments to income from operations in the Consolidated Statements of Operations for the three months ended June 30, 2012 and 2011 is as follows:

	2012	2011
Total operating profit from segments above	\$64,739	\$64,144
Corporate overhead expenses	(11,080)	(10,720)
Noncontrolling interest reflected in segments	139	533
Income from operations	\$53,798	\$53,957

The following tables provide additional information for the three months ended June 30, 2012 and 2011 pertaining to our business segments:

	Capital Expenditures		Depreciation	
	2012	2011	2012	2011
Private Banks	\$8,180	\$6,783	\$3,704	\$3,962
Investment Advisors	2,805	2,296	492	556
Institutional Investors	636	251	251	268
Investment Managers	1,110	89	492	435
Investments in New Businesses	148	92	490	29
Total from business segments	\$12,879	\$9,511	\$5,429	\$5,250
Corporate Overhead	286	(24)	201	141
	\$13,165	\$9,487	\$5,630	\$5,391





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	Amortization	
	2012	2011
Private Banks	\$4,794	\$4,608
Investment Advisors	1,757	1,551
Institutional Investors	302	196
Investment Managers	201	131
Investments in New Businesses	296	65
Total from business segments	\$7,350	\$6,551
Corporate Overhead	57	241
	\$7,407	\$6,792

The following tables highlight certain unaudited financial information about each of the Company's business segments for the six months ended June 30, 2012 and 2011.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total	
For the Six Months Ended June 30, 2012							
Revenues	\$176,291	\$98,843	\$109,212	\$92,924	\$1,865	\$479,135	
Expenses	172,403	58,326	56,840	60,589	7,382	355,540	
Operating profit (loss)	\$3,888	\$40,517	\$52,372	\$32,335	\$(5,517)	\$123,595	
Operating margin	2	% 41	% 48	% 35	% N/A	26	%

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total	
For the Six Months Ended June 30, 2011							
Revenues	\$174,582	\$97,876	\$107,916	\$87,893	\$1,986	\$470,253	
Expenses	168,677	54,774	54,359	57,281	6,045	341,136	
Operating profit (loss)	\$5,905	\$43,102	\$53,557	\$30,612	\$(4,059)	\$129,117	
Operating margin	3	% 44	% 50	% 35	% N/A	27	%

A reconciliation of the total reported for the business segments to income from operations in the Consolidated Statements of Operations for the six months ended June 30, 2012 and 2011 is as follows:

	2012	2011
Total operating profit from segments above	\$123,595	\$129,117
Corporate overhead expenses	(22,162)	(21,368)
Noncontrolling interest reflected in segments	454	805
Income from operations	\$101,887	\$108,554

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The following tables provide additional information for the six months ended June 30, 2012 and 2011 pertaining to our business segments:

	Capital Expenditures		Depreciation	
	2012	2011	2012	2011
Private Banks	\$20,022	\$17,813	\$7,432	\$8,000
Investment Advisors	6,946	6,038	986	1,147
Institutional Investors	1,867	1,132	513	560
Investment Managers	4,163	1,873	968	938
Investments in New Businesses	420	304	824	59
Total from business segments	\$33,418	\$27,160	\$10,723	\$10,704
Corporate Overhead	1,140	350	339	298
	\$34,558	\$27,510	\$11,062	\$11,002

	Amortization	
	2012	2011
Private Banks	\$9,479	\$8,837
Investment Advisors	3,473	2,969
Institutional Investors	604	363
Investment Managers	402	246
Investments in New Businesses	573	124
Total from business segments	\$14,531	\$12,539
Corporate Overhead	498	484
	\$15,029	\$13,023

#### Note 11. Income Taxes

The gross liability for unrecognized tax benefits at June 30, 2012 and December 31, 2011 was \$11,547 and \$9,410, respectively, exclusive of interest and penalties, of which \$9,974 and \$8,320 would affect the effective tax rate if the Company were to recognize the tax benefit.

The Company classifies interest and penalties on unrecognized tax benefits as income tax expense. As of June 30, 2012 and December 31, 2011, the combined amount of accrued interest and penalties related to tax positions taken on tax returns was \$853 and \$634, respectively.

	June 30, 2012	December 31, 2011
Gross liability for unrecognized tax benefits, exclusive of interest and penalties	\$11,547	\$9,410
Interest and penalties on unrecognized benefits	853	634
Total gross uncertain tax positions	\$12,400	\$10,044
Amount included in Current liabilities	\$1,768	\$1,768
Amount included in Other long-term liabilities	10,632	8,276
	\$12,400	\$10,044

The Company's effective tax rates were 36.6 percent and 34.7 percent for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, the Company's tax rates were 36.9 percent and 36.0 percent, respectively. The 2011 tax rate reflects a benefit for research and development tax credit whereas the 2012 tax rate did not reflect any benefit. Additionally, during the three months ended June 30, 2011, management determined the Company was eligible for the Domestic Production Activities Deduction. The effective rate in the three months ended June 30, 2011 reflects the benefit of this deduction for both 2011 and 2010, whereas the 2012 tax rate only reflects the 2012 benefit.

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The Company files income tax returns in the United States on a consolidated basis and in many U.S. state and foreign jurisdictions. The Company is subject to examination of income tax returns by the Internal Revenue Service (IRS) and other domestic and foreign tax authorities. The Company is no longer subject to U.S. federal income tax examination for years before

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2007 and is no longer subject to state, local or foreign income tax examinations by authorities for years before 2006. The Company estimates it will recognize \$1,768 of unrecognized tax benefits within the next twelve months due to the expiration of the statute of limitations and resolution of income tax audits. These unrecognized tax benefits are related to tax positions taken on certain federal, state, and foreign tax returns. However, the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. While it is reasonably possible that some issues under examination could be resolved in the next twelve months, based upon the current facts and circumstances, the Company cannot reasonably estimate the timing of such resolution or total range of potential changes as it relates to the current unrecognized tax benefits that are recorded as part of the Company's financial statements.

Note 12. Commitments and Contingencies

In the normal course of business, the Company is party to various claims and legal proceedings.

One of SEI's principal subsidiaries, SIDCO, has been named as a defendant in certain putative class action complaints (the Complaints) related to leveraged exchange traded funds (ETFs) advised by ProShares Advisors, LLC. The first complaint was filed on August 5, 2009. To date, the Complaints have been filed in the United States District Court for the Southern District of New York and in the United States District Court for the District of Maryland. The three complaints filed in the District of Maryland have been voluntarily dismissed by the plaintiffs. Two of them were subsequently re-filed in the Southern District of New York. Two of the complaints filed in the Southern District of New York have also been voluntarily dismissed by plaintiffs. The Complaints are purportedly made on behalf of all persons that purchased or otherwise acquired shares in various ProShares leveraged ETFs pursuant or traceable to allegedly false and misleading registration statements, prospectuses and statements of additional information. The Complaints name as defendants ProShares Advisors, LLC; ProShares Trust; ProShares Trust II, SIDCO, and various officers and trustees to ProShares Advisors, LLC; ProShares Trust and ProShares Trust II. The Complaints allege that SIDCO was the distributor and principal underwriter for the various ProShares leveraged ETFs that were distributed to authorized participants and ultimately shareholders. The complaints allege that the registration statements for the ProShares ETFs were materially false and misleading because they failed adequately to describe the nature and risks of the investments. The Complaints allege that SIDCO is liable for these purportedly material misstatements and omissions under Section 11 of the Securities Act of 1933. The Complaints seek unspecified compensatory and other damages, reasonable costs and other relief. Defendants have moved to consolidate the complaints, which motion has been granted. The Court appointed lead plaintiff on July 13, 2010, and an amended consolidated class action complaint was filed on September 25, 2010 asserting substantially the same claims. Defendants moved to dismiss on November 15, 2010. On December 16, 2010, lead plaintiff informed the Court and Defendants that lead plaintiff elected to file a second amended consolidated complaint, which was filed on January 31, 2011. Defendants filed a motion to dismiss the second complaint on March 17, 2011. Oral argument on this motion was held on February 2, 2012. While the outcome of this litigation is uncertain given its early phase, SEI believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

SEI has been named in six lawsuits filed in Louisiana. Five lawsuits were filed in the 19th Judicial District Court for the Parish of East Baton Rouge, State of Louisiana. One of the five actions purports to set forth claims on behalf of a class and also names SPTC as a defendant. Two of the other actions also name SPTC as a defendant. All five actions name various defendants in addition to SEI, and, in all five actions, the plaintiffs purport to bring a cause of action under the Louisiana Securities Act. The putative class action originally included a claim against SEI and SPTC for an alleged violation of the Louisiana Unfair Trade Practices Act. Two of the other five actions include claims for violations of the Louisiana Racketeering Act and possibly conspiracy. In addition, another group of plaintiffs have filed a lawsuit in the 23rd Judicial District Court for the Parish of Ascension, State of Louisiana, against SEI and SPTC and other defendants asserting claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Securities Act and Louisiana Racketeering Act and conspiracy. The underlying allegations in all the actions are purportedly

related to the role of SPTC in providing back-office services to Stanford Trust Company. The petitions allege that SEI and SPTC aided and abetted or otherwise participated in the sale of “certificates of deposit” issued by Stanford International Bank. Two of the five actions filed in East Baton Rouge have been removed to federal court, and plaintiffs’ motions to remand are pending. These two cases have been transferred by the Judicial Panel on Multidistrict Litigation to United States District Court for the Northern District of Texas. On August 31, 2011, the United States District Court for the Northern District of Texas issued an order and judgment that the causes of action alleged against SEI and SPTC in the two remanded actions were preempted by federal law and the Court dismissed these cases with prejudice. The Court of Appeals for the Fifth Circuit granted an expedited appeal of the United States District Court’s order and judgment. The appeal was briefed, and oral argument was held on February 7, 2012. On March 19, 2012, a panel of the Court of Appeals for the Fifth Circuit reversed the decision of the United States District Court and remanded the actions for further proceedings. On April 2, 2012, SEI filed with the United States Court of Appeals for the Fifth Circuit a petition for rehearing en banc of the panel’s opinion. On April 19, 2012, the Fifth Circuit Court of Appeals denied the petition for rehearing.

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The case filed in Ascension Parish was also removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the Northern District of Texas. The schedule for responding to that complaint has not yet been established. The plaintiffs in the remaining two cases in East Baton Rouge have granted SEI an extension to respond to the filings. SEI and SPTC filed exceptions in the putative class action pending in East Baton Rouge, which the Court granted in part and dismissed the claims under the Louisiana Unfair Trade Practices Act and denied in part as to the other exceptions. SEI and SPTC filed an answer to the East Baton Rouge putative class action; plaintiffs filed a motion for class certification; and SEI and SPTC also filed a motion for summary judgment against certain named plaintiffs which the Court stated will not be set for hearing until after the hearing on the class certification motion. Following the decision by the United States District Court for the Northern District of Texas, the Court in the East Baton Rouge action issued an order staying the proceedings in the East Baton Rouge class action pending the outcome of the appeal of the order and judgment of the United States District Court for the Northern District of Texas. Following the panel opinion of the Court of Appeals on March 19, 2012, the Court in the East Baton Rouge action scheduled a hearing on class certification for September 20, 2012. On July 18, 2012, the Company filed a petition for certiorari in the United States Supreme Court, seeking review of the decision by the United States Court of Appeals for the Eleventh Circuit to permit the claims against SEI to proceed. The Company believes that the trial court correctly concluded that the claims against SEI were barred by the federal Securities Litigation Uniform Standards Act and is requesting that the Supreme Court reinstate that dismissal. While the outcome of this litigation is uncertain given its early phase, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously.

Because of the uncertainty of the make-up of the classes, the specific theories of liability that may survive a motion to dismiss, the lack of discovery regarding damages, causation, mitigation and other aspects that may ultimately bear upon loss, the Company is not reasonably able to provide an estimate of loss, if any, with respect to the foregoing lawsuits.

#### Note 13. Subsequent Events

On July 31, 2012, the Company, MetLife International Holdings, Inc. (MetLife) and International Finance Corporation (IFC) entered into a definitive agreement with Baring Asset Management Limited to sell all ownership interests in SEI Asset Korea Co., Ltd. (SEI AK). SEI AK is located in South Korea and provides domestic equity and fixed income investment management services to financial institutions and pension funds. Consummation of the acquisition of SEI AK under the definitive agreement is subject to regulatory approvals and other customary closing conditions.

The Company's ownership interest in SEI AK is 56.1 percent as of July 31, 2012. The Company consolidates the assets, liabilities and operations of SEI AK in its Consolidated Financial Statements. The ownership interests in SEI AK for MetLife and IFC is reflected in Noncontrolling interest in the Consolidated Financial Statements. Upon closing of the agreement, the then current cash balance of SEI AK will be distributed to the Company, MetLife and IFC in accordance with the ownership interests.

As of June 30, 2012, SEI AK has total corporate assets of \$48,776, of which \$42,553 is included in Cash and Cash equivalents on the Consolidated Balance Sheets. All other accounts of SEI AK are not material to any financial statement line item in the Consolidated Financial Statements.

The Company did not provide U.S. deferred taxes on the undistributed earnings of SEI AK since its inception because those earnings were considered to be indefinitely reinvested. As a result of the potential sale of SEI AK, the Company no longer considers undistributed earnings to be indefinitely reinvested and, therefore, must accrue approximately \$5,000 for U.S. deferred taxes during the three months ended September 30, 2012 on the cumulative undistributed earnings of SEI AK.

If the requisite regulatory approvals are obtained, the other conditions to closing are satisfied or waived and the transaction is consummated, then the Company expects to recognize a net after tax gain on the sale of its shares of SEI AK depending upon revenue during a pre-closing measurement period and specified revenues during three one-year periods after the closing.



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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(In thousands, except asset balances and per share data)

This discussion reviews and analyzes the consolidated financial condition at June 30, 2012 and 2011, the consolidated results of operations for the three and six months ended June 30, 2012 and 2011 and other key factors that may affect future performance. This discussion should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

## Overview

## Consolidated Summary

We are a leading global provider of investment processing, investment management, and investment operations solutions. We help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth by providing comprehensive, innovative, investment and investment-business solutions. Investment processing fees are earned as monthly fees for contracted services, including computer processing services, software licenses, and investment operations services, as well as transaction-based fees for providing securities valuation and trade-execution. Investment operations and investment management fees are earned as a percentage of average assets under management or administration. As of June 30, 2012, through our subsidiaries and partnerships in which we have a significant interest, we manage or administer \$424.0 billion in mutual fund and pooled or separately managed assets, including \$181.7 billion in assets under management and \$242.3 billion in client assets under administration. Our affiliate, LSV Asset Management (LSV), manages \$54.9 billion of assets which are included as assets under management.

Our Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011 were:

	Three Months Ended			Percent	Six Months Ended June			Percent
	June 30,		Change		30,		Change	
	2012	2011			2012	2011		
Revenues	\$241,237	\$237,760	1	%	\$479,135	\$470,253	2	%
Expenses	187,439	183,803	2	%	377,248	361,699	4	%
Income from operations	53,798	53,957	—	%	101,887	108,554	(6)	)%
Net gain from investments	664	(1,948)	(134)	)%	3,869	5,330	(27)	)%
Interest income, net of interest expense	1,327	1,281	4	%	2,653	2,621	1	%
Equity in earnings from unconsolidated affiliate	22,712	29,530	(23)	)%	50,042	58,479	(14)	)%
Income before income taxes	78,501	82,820	(5)	)%	158,451	174,984	(9)	)%
Income taxes	28,762	28,707	—	%	58,477	62,831	(7)	)%
Net income	49,739	54,113	(8)	)%	99,974	112,153	(11)	)%
Less: Net income attributable to noncontrolling interest	(184)	(510)	(64)	)%	(454)	(822)	(45)	)%
Net income attributable to SEI Investments Co.	\$49,555	\$53,603	(8)	)%	99,520	\$111,331	(11)	)%
Diluted earnings per common share	\$0.28	\$0.29	(3)	)%	\$0.56	\$0.59	(5)	)%



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In our opinion, the following items had a significant impact on our financial results for the three and six months ended June 30, 2012 and 2011:

Revenue growth was primarily driven by higher Asset management, administration and distribution fees from improved cash flows from new and existing clients and market appreciation in 2012 despite the market decline in the second quarter. Our average assets under management, excluding LSV, increased \$8.5 billion, or seven percent, to \$125.4 billion in the first six months of 2012 as compared to \$116.9 billion during the first six months of 2011. New business in our Institutional Investors and Investment Managers segments contributed to our growth in revenues. Additionally, asset funding from existing clients for our hedge fund solutions and increased accounts for our separately managed accounts solutions in our Investment Managers segment also served to drive revenue growth. Our proportionate share in the earnings of LSV in the first six months of 2012 was \$50.0 million, as compared to \$58.5 million in the first six months of 2011, a decrease of 14 percent. Despite the favorable market conditions in late 2011 and first quarter 2012, LSV's revenues decreased due to the market decline in second quarter 2012 which resulted in a net decline in the value of assets under management. LSV's average assets under management were \$57.6 billion during the first six months of 2012, as compared to \$62.6 billion during the first six months of 2011, a decrease of eight percent. Our earnings from LSV were also negatively impacted by a decrease in our ownership percentage from approximately 41.2 percent to approximately 39.8 percent during the second quarter 2012. The reduction in our ownership percentage is described in greater detail under the caption "Equity in earnings of unconsolidated affiliate" later in this discussion.

Our operating expenses related to servicing new and existing clients of our Global Wealth Services solution implemented on the Global Wealth Platform increased during the first six months of 2012 as compared to the first six months of 2011 as we continue to build out the operational infrastructure. These increased operational costs, mainly related to personnel, primarily impacted the Private Banks and Investment Advisors segments. The increased operational costs are included in Compensation, benefits and other personnel on the accompanying Consolidated Statements of Operations.

Our costs incurred for the development of the Global Wealth Platform, excluding amounts capitalized, have declined during the first six months of 2012 as compared to the first six months of 2011 as we transition our efforts from development to support and maintenance of the platform. These development costs, which are expensed as incurred, are included in Consulting, outsourcing and professional fees on the accompanying Consolidated Statements of Operations.

Our operating expenses related to our hedge fund and separately managed accounts solutions of our Investment Managers segment increased during the first six months of 2012 as compared to the first six months of 2011. These increased operational costs, mainly related to personnel, resulted from servicing new and existing clients and are also included in Compensation, benefits and other personnel on the accompanying Consolidated Statements of Operations. Sales events, net of client losses, were significantly higher during the first six months of 2012. These sales events resulted in an increase in sales compensation expense of \$4.6 million when compared to the first six months of 2011. We recognized gains of \$1.1 million and \$4.0 million from SIV securities in the three and six months ended June 30, 2012, respectively, as compared to losses of \$1.9 million and gains of \$4.9 million in the prior year periods. We continued our stock repurchase program during 2012 and purchased 4,098,000 shares at an average price of approximately \$19.50 per share in the six month period.

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## Ending Asset Balances

(In millions)

This table presents ending assets of our clients, or of our clients' customers, for which we provide management or administrative services through our subsidiaries and partnerships in which we have a significant interest. These assets are not included in our balance sheets because we do not own them.

	As of June 30,		Percent	
	2012	2011	Change	
Private Banks:				
Equity and fixed income programs	\$ 16,848	\$ 16,720	1	%
Collective trust fund programs	335	504	(34)	)%
Liquidity funds	5,063	4,918	3	%
Total assets under management	\$22,246	\$22,142	—	%
Client proprietary assets under administration	10,719	10,994	(3)	)%
Total assets	\$32,965	\$33,136	(1)	)%
Investment Advisors:				
Equity and fixed income programs	29,153	28,410	3	%
Collective trust fund programs	705	1,499	(53)	)%
Liquidity funds	1,880	1,651	14	%
Total assets under management	\$31,738	\$31,560	1	%
Institutional Investors:				
Equity and fixed income programs	55,548	51,180	9	%
Collective trust fund programs	415	482	(14)	)%
Liquidity funds	2,958	3,146	(6)	)%
Total assets under management	\$58,921	\$54,808	8	%
Investment Managers:				
Equity and fixed income programs	61	50	22	%
Collective trust fund programs	13,004	10,372	25	%
Liquidity funds	226	179	26	%
Total assets under management	\$13,291	\$10,601	25	%
Client proprietary assets under administration (A)	231,549	238,432	(3)	)%
Total assets	\$244,840	\$249,033	(2)	)%
Investments in New Businesses:				
Equity and fixed income programs	551	558	(1)	)%
Liquidity funds	30	41	(27)	)%
Total assets under management	\$581	\$599	(3)	)%
LSV:				
Equity and fixed income programs	\$54,922	\$60,626	(9)	)%
Consolidated:				
Equity and fixed income programs	157,083	157,544	—	%
Collective trust fund programs	14,459	12,857	12	%
Liquidity funds	10,157	9,935	2	%
Total assets under management	\$181,699	\$180,336	1	%
Client proprietary assets under administration	242,268	249,426	(3)	)%
Total assets under management and administration	\$423,967	\$429,762	(1)	)%

(A) Client assets under administration in the Investment Managers segment include \$38.4 billion and \$52.2 billion of assets at June 30, 2012 and 2011, respectively, that require limited services and therefore are at fee levels below our normal full service assets.



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## Average Asset Balances

(In millions)

This table presents average asset balances of our clients, or of clients' customers, for which we provide management or administrative services through our subsidiaries and partnerships in which we have a significant interest. These assets are not included in our balance sheets because we do not own them.

	Three Months Ended		Percent		Six Months Ended June		Percent	
	June 30,	2011			30,	2011		
	2012		Change		2012	2011	Change	
<b>Private Banks:</b>								
Equity and fixed income programs	\$ 16,794	\$ 16,176	4	%	\$ 16,955	\$ 15,173	12	%
Collective trust fund programs	396	543	(27)	)%	416	568	(27)	)%
Liquidity funds	5,115	4,909	4	%	5,348	4,984	7	%
Total assets under management	\$ 22,305	\$ 21,628	3	%	\$ 22,719	\$ 20,725	10	%
Client proprietary assets under administration	10,631	11,114	(4)	)%	10,421	11,018	(5)	)%
Total assets	\$ 32,936	\$ 32,742	1	%	\$ 33,140	\$ 31,743	4	%
<b>Investment Advisors:</b>								
Equity and fixed income programs	29,103	28,502	2	%	28,765	28,172	2	%
Collective trust fund programs	984	1,544	(36)	)%	1,111	1,616	(31)	)%
Liquidity funds	1,806	1,576	15	%	1,911	1,578	21	%
Total assets under management	\$ 31,893	\$ 31,622	1	%	\$ 31,787	\$ 31,366	1	%
<b>Institutional Investors:</b>								
Equity and fixed income programs	54,998	51,567	7	%	53,634	50,980	5	%
Collective trust fund programs	418	554	(25)	)%	423	581	(27)	)%
Liquidity funds	3,147	3,515	(10)	)%	3,456	3,467	—	%
Total assets under management	\$ 58,563	\$ 55,636	5	%	\$ 57,513	\$ 55,028	5	%
<b>Investment Managers:</b>								
Equity and fixed income programs	63	38	66	%	61	20	205	%
Collective trust fund programs	12,991	9,560	36	%	12,487	8,924	40	%
Liquidity funds	235	165	42	%	212	187	13	%
Total assets under management	\$ 13,289	\$ 9,763	36	%	\$ 12,760	\$ 9,131	40	%
Client proprietary assets under administration	229,873	241,423	(5)	)%	227,210	239,400	(5)	)%
Total assets	\$ 243,162	\$ 251,186	(3)	)%	\$ 239,970	\$ 248,531	(3)	)%
<b>Investments in New Businesses:</b>								
Equity and fixed income programs	550	561	(2)	)%	550	570	(4)	)%
Liquidity funds	33	42	(21)	)%	36	52	(31)	)%
Total assets under management	\$ 583	\$ 603	(3)	)%	\$ 586	\$ 622	(6)	)%
<b>LSV:</b>								
Equity and fixed income programs	\$ 55,994	\$ 63,000	(11)	)%	\$ 57,597	\$ 62,606	(8)	)%
<b>Consolidated:</b>								
Equity and fixed income programs	157,502	159,844	(1)	)%	157,562	157,521	—	%
Collective trust fund programs	14,789	12,201	21	%	14,437	11,689	24	%
Liquidity funds	10,336	10,207	1	%	10,963	10,268	7	%
Total assets under management	\$ 182,627	\$ 182,252	—	%	\$ 182,962	\$ 179,478	2	%
Client proprietary assets under administration	240,504	252,537	(5)	)%	237,631	250,418	(5)	)%
Total assets	\$ 423,131	\$ 434,789	(3)	)%	\$ 420,593	\$ 429,896	(2)	)%

Total assets under management and  
administration

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In the preceding tables, assets under management are total assets of our clients or their customers invested in our equity and fixed-income investment programs, collective trust fund programs, and liquidity funds for which we provide asset management services. Assets under management and administration also include total assets of our clients or their customers for which we provide administrative services, including client proprietary fund balances for which we provide administration and/or distribution services.

## Business Segments

Revenues, Expenses and Operating Profit (Loss) for our business segments for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011 were as follows:

	Three Months Ended June			Six Months Ended June			Percent	
	30,	2011	Change	30,	2011	Change		
	2012			2012				
Private Banks:								
Revenues	\$88,303	\$87,873	—	% \$176,291	\$174,582	1	%	
Expenses	84,886	86,274	(2	)%	172,403	168,677	2	%
Operating Profit	\$3,417	\$1,599	114	%	\$3,888	\$5,905	(34	)%
Operating Margin	4	% 2	%	2	% 3	%		
Investment Advisors:								
Revenues	\$49,375	\$49,768	(1	)%	\$98,843	\$97,876	1	%
Expenses	29,025	27,734	5	%	58,326	54,774	6	%
Operating Profit	\$20,350	\$22,034	(8	)%	\$40,517	\$43,102	(6	)%
Operating Margin	41	% 44	%	41	% 44	%		
Institutional Investors:								
Revenues	\$55,895	\$54,731	2	%	\$109,212	\$107,916	1	%
Expenses	28,740	27,406	5	%	56,840	54,359	5	%
Operating Profit	\$27,155	\$27,325	(1	)%	\$52,372	\$53,557	(2	)%
Operating Margin	49	% 50	%	48	% 50	%		
Investment Managers:								
Revenues	\$46,713	\$44,452	5	%	\$92,924	\$87,893	6	%
Expenses	30,163	29,282	3	%	60,589	57,281	6	%
Operating Profit	\$16,550	\$15,170	9	%	\$32,335	\$30,612	6	%
Operating Margin	35	% 34	%	35	% 35	%		
Investments in New Businesses:								
Revenues	\$951	\$936	2	%	\$1,865	\$1,986	(6	)%
Expenses	3,684	2,920	26	%	7,382	6,045	22	%
Operating Loss	\$(2,733	) \$(1,984	) 38	%	\$(5,517	) \$(4,059	) 36	%
Operating Margin	N/A	N/A			N/A	N/A		

For additional information pertaining to our business segments, see Note 10 to the Consolidated Financial Statements.

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## Private Banks

	Three Months Ended		Percent Change	Six Months Ended June		Percent Change		
	June 30, 2012	2011		30, 2012	2011			
Revenues:								
Information processing and software servicing fees	\$56,785	\$55,587	2	%	\$112,537	\$111,033	1	%
Asset management, administration & distribution fees	25,071	25,311	(1	)%	50,180	49,229	2	%
Transaction-based and trade execution fees	6,447	6,975	(8	)%	13,574	14,320	(5	)%
Total revenues	\$88,303	\$87,873	—	%	\$176,291	\$174,582	1	%

Revenues increased slightly in the three and six month periods ended June 30, 2012 and were primarily affected by: Increased investment management fees in the six month period from existing international clients due to higher average assets under management from improved capital markets in late 2011 into the first quarter of 2012; partially offset by

Lower recurring investment processing fees due to price reductions provided to existing clients that recontracted for longer periods, client losses and lower transaction volumes.

Operating margins increased to four percent compared to two percent in the three month period. Operating income increased by \$1.8 million, or 114 percent, in the three month period and was primarily affected by:

• An increase in revenues;

• Lower direct costs associated with third party service providers during the second quarter 2012; partially offset by

• Increased sales compensation expense due to new business activity; and

• Increased direct expenses associated with increased investment management fees from existing international clients, mainly distribution fees.

Operating margins decreased to two percent compared to three percent in the six month period. Operating income decreased by \$2.0 million, or 34 percent, in the six month period and was primarily affected by:

• Increased direct expenses associated with increased investment management fees from existing international clients, mainly distribution fees;

• Increased sales compensation expense due to new business activity;

• Increased non-capitalized development costs, mainly personnel costs, and amortization expense relating to the Global Wealth Platform; and

• Increased operational costs, mainly personnel costs, for servicing new and existing Global Wealth Services clients implemented onto the Global Wealth Platform; partially offset by

• An increase in revenues.

## Investment Advisors

Revenues decreased slightly in the three month period and increased slightly in the six month period ended June 30, 2012 and were primarily affected by:

• Increased investment management fees in the six month period from existing clients due to higher average assets under management caused by improved capital markets in late 2011 and through the first quarter of 2012 and an increase in net cash flows from new and existing advisors; partially offset by

• Decreased investment management fees in the three month period due to the planned closure of the SEI Stable Asset Fund, a collective trust fund product.

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Operating margins decreased to 41 percent compared to 44 percent in both the three and six month periods. Operating income decreased by \$1.7 million, or eight percent, in the three month period and \$2.6 million, or six percent, in the six month period and was primarily affected by:

Increased non-capitalized development costs and amortization expense relating to the Global Wealth Platform as well as spending associated with building the necessary functionality and infrastructure for servicing financial institutions and investment advisors in the United States;

Increased sales compensation expense due to new business activity; and

Increased one-time termination costs; partially offset by

An increase in revenues.

**Institutional Investors**

Revenues increased \$1.2 million, or two percent, in the three month period and increased \$1.3 million, or one percent, in the six month period ended June 30, 2012 and were primarily affected by:

Increased investment management fees from existing clients due to higher average assets under management caused by improved capital markets in late 2011 and through the first quarter of 2012 as well as additional asset funding from existing clients; and

Asset funding from new sales of our retirement and not-for-profit solutions; partially offset by

Client losses and lower basis points earned on assets under management.

Operating margins decreased to 49 percent compared to 50 percent in the three month period and decreased to 48 percent compared to 50 percent in the six month period. Operating income decreased slightly in the three month period and decreased \$1.2 million, or two percent, in the six month period and was primarily affected by:

Increased sales compensation expense due to new business activity and other personnel costs, mainly salary; and

Increased discretionary marketing and promotion expenses; partially offset by

An increase in revenues.

**Investment Managers**

Revenues increased \$2.3 million, or five percent, in the three month period and increased \$5.0 million, or six percent, in the six month period ended June 30, 2012 and were primarily affected by:

Cash flows from new clients of our hedge funds and collective trust fund solutions; partially offset by client losses;

Net positive cash flows from existing hedge fund clients due to new funding along with higher valuations from capital market increases in late 2011 and through the first quarter of 2012; and

Increased accounts from our separately managed account program due to new clients and existing clients involved in mergers.

Operating margins increased to 35 percent compared to 34 percent in the three month period and remained at 35 percent in the six month period. Operating income increased \$1.4 million, or nine percent, in the three month period and increased \$1.7 million, or six percent, in the six month period and was primarily affected by:

An increase in revenues; partially offset by

Increased personnel expenses, technology and other operational costs to service new clients of our hedge fund and separately managed accounts solutions.

**Other**

Other income and expense items on the accompanying Consolidated Statements of Operations consists of:

	Three Months Ended		Six Months Ended June	
	June 30,	2011	30,	2011
	2012		2012	2011
Net gain (loss) from investments	\$664	\$(1,948)	\$3,869	\$5,330
Interest and dividend income	1,440	1,436	2,927	2,980
Interest expense	(113)	(155)	(274)	(359)
Equity in earnings of unconsolidated affiliate	22,712	29,530	50,042	58,479



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Total other income and expense items, net	\$24,703	\$28,863	\$56,564	\$66,430
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Net gain (loss) from investments

Net gain (loss) from investments consists of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Gains (Losses) from SIV securities	\$1,072	\$(1,944)	\$3,954	\$4,920
Net realized and unrealized gains (losses) from marketable securities	(408)	(4)	211	410
Other losses	—	—	(296)	—
Net gain (loss) from investments	\$664	\$(1,948)	\$3,869	\$5,330

During the six months ended June 30, 2012, we recognized gains of \$4.0 million from SIV securities, of which \$4.5 million resulted from cash payments received from the SIV securities offset by losses of \$0.5 million which resulted from a decrease in fair value at June 30, 2012.

During the six months ended June 30, 2011, we recognized gains of \$4.9 million from SIV securities, of which \$6.2 million resulted from cash payments received from the SIV securities offset by losses of \$1.3 million which resulted from a decrease in fair value at June 30, 2011. In addition, we sold the senior note obligation originally issued by Stanfield Victoria. There was no gain or loss recognized from the sale of the note as the fair value of the Stanfield Victoria note at December 31, 2010 was not different than the sale price received.

Interest and dividend income

Interest and dividend income is earned based upon the amount of cash that is invested daily and the average yield earned on those balances.

Interest expense

Interest expense primarily includes fees related to our credit facility.

Equity in earnings of unconsolidated affiliate

Equity in earnings of unconsolidated affiliate on the accompanying Consolidated Statement of Operations includes our less than 50 percent ownership in LSV. During the six months ended June 30, 2011, our partnership interest in LSV was approximately 41.2 percent. In March 2009, certain partners of LSV, including SEI, agreed to designate a portion of their partnership interest for the purpose of providing an interest in the partnership to a select group of key LSV employees. In April 2012, these contributing partners agreed to provide certain key LSV employees an interest in LSV thereby reducing our interest in LSV to approximately 39.8 percent.

Our proportionate share in the earnings of LSV was \$22.7 million in second quarter 2012 as compared to \$29.5 million in second quarter 2011, a decrease of 23 percent. Our proportionate share in the earnings of LSV was \$50.0 million in the six months ended June 30, 2012 as compared to \$58.5 million in the six months ended June 30, 2011, a decrease of 14 percent. The reductions in our earnings from LSV were due to lower assets under management from market depreciation in second quarter 2012 and the decline in our partnership interest. LSV's average assets under management decreased \$5.0 billion to \$57.6 billion during the six months ended June 30, 2012 as compared to \$62.6 billion during the six months ended June 30, 2011, a decrease of eight percent.

Noncontrolling interest

Noncontrolling interest includes the interest of other shareholders in a joint venture of the Company in an asset management firm located in South Korea.

Income Taxes

Our effective tax rates were 36.6 percent and 34.7 percent for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, our effective tax rates were 36.9 percent and 36.0 percent, respectively. The 2011 tax rate reflects a benefit for research and development tax credit whereas the 2012 tax rate did not reflect any benefit. Additionally, during the three months ended June 30, 2011, we determined SEI was eligible for the Domestic Production Activities Deduction. The effective rate in the three months ended June 30, 2011

reflects the benefit of this deduction for both 2011 and 2010, whereas the 2012 tax rate only reflects the 2012 benefit.

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## Fair Value Measurements

The fair value of our financial assets and liabilities is determined in accordance with the fair value hierarchy. The fair value of most of our financial assets are determined using Level 1 or Level 2 inputs and consist mainly of investments in equity or fixed-income mutual funds that are quoted daily and Government National Mortgage Association (GNMA) and other U.S. government agency securities that are single issuer pools that are valued based on current market data of similar assets. Our Level 3 financial assets consist mainly of SIV securities (See Note 5 to the Notes to Consolidated Financial Statements).

## Liquidity and Capital Resources

	Six Months Ended June 30,	
	2012	2011
Net cash provided by operating activities	\$75,113	\$92,840
Net cash (used in) provided by investing activities	(28,198	) 1,341