

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)*

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2005

or

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

0-10200
(Commission File Number)

SEI INVESTMENTS COMPANY

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-1707341
(IRS Employer
Identification Number)

1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100
(Address of principal executive offices)
(Zip Code)

(610) 676-1000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 31, 2005: 99,236,543 shares of common stock, par value \$.01 per share.

PART I. FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements.**

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

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 133,709	\$ 216,966
Restricted cash	10,003	14,386
Receivables from regulated investment companies	30,988	29,688
Receivables, net of allowance for doubtful accounts of \$1,469 and \$1,800 (Note 2)	87,884	79,107
Deferred income taxes	4,758	5,892
Prepaid expenses and other current assets	9,030	9,640
Total Current Assets	276,372	355,679
Property and Equipment, net of accumulated depreciation and amortization of \$105,688 and \$100,524 (Note 2)	115,049	113,640
Capitalized Software, net of accumulated amortization of \$21,081 and \$19,325	100,430	55,830
Investments Available for Sale	51,999	39,817
Other Assets, net (Note 2)	62,251	50,509
Total Assets	\$ 606,101	\$ 615,475

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

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

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 6,778	\$ 9,556
Accounts payable	6,218	7,415
Payable to regulated investment companies	29	4,302
Accrued liabilities (Note 2)	123,835	139,957
Deferred gain	531	—
Deferred revenue	335	2,339
	<hr/>	<hr/>
Total Current Liabilities	137,726	163,569
	<hr/>	<hr/>
Long-term Debt	9,000	14,389
	<hr/>	<hr/>
Deferred Income Taxes	50,018	32,103
	<hr/>	<hr/>
Deferred Gain	—	1,472
	<hr/>	<hr/>
Commitments and Contingencies (Note 8)		
Shareholders' Equity:		
Common stock, \$.01 par value, 750,000 shares authorized; 99,125 and 102,175 shares issued and outstanding	991	1,022
Capital in excess of par value	263,258	262,174
Retained earnings	140,688	134,595
Accumulated other comprehensive income, net	4,420	6,151
	<hr/>	<hr/>
Total Shareholders' Equity	409,357	403,942
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	\$ 606,101	\$ 615,475
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended September 30,	
	2005	2004
Revenues	\$193,659	\$172,978
Expenses:		
Operating and development	99,633	78,961
Sales and marketing	32,514	32,410
General and administrative	8,212	7,054
Income from operations	53,300	54,553
Equity in the earnings of unconsolidated affiliate	20,956	11,859
Net (loss) gain from investments	(130)	439
Interest income	1,979	1,184
Interest expense	(369)	(497)
Other income	941	3,689
Income before income taxes	76,677	71,227
Income taxes	27,481	25,820
Net income	49,196	45,407
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	53	496
Unrealized holding (loss) gain on investments:		
Unrealized holding (losses) gains during the period net of income tax benefit (expense) of \$182 and \$(328)	(325)	592
Less: reclassification adjustment for losses (gains) realized in net income, net of income tax (benefit) expense of \$(43) and \$220	86	(388)
Other comprehensive (loss) income	(186)	700
Comprehensive income	\$ 49,010	\$ 46,107
Basic earnings per common share	\$.49	\$.44
Diluted earnings per common share	\$.48	\$.43

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

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

	Nine Months Ended September 30,	
	2005	2004
Revenues	\$569,420	\$509,301
Expenses:		
Operating and development	291,140	232,289
Sales and marketing	97,621	98,037
General and administrative	25,331	22,651
Income from operations	155,328	156,324
Equity in the earnings of unconsolidated affiliate	53,818	31,542
Net gain from investments	219	4,730
Interest income	5,739	3,021
Interest expense	(1,171)	(1,628)
Other income	941	3,689
Income before income taxes	214,874	197,678
Income taxes	77,785	71,658
Net income	137,089	126,020
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(1,263)	1,170
Unrealized holding loss on investments:		
Unrealized holding (losses) gains during the period net of income tax benefit (expense) of \$183 and \$(535)	(328)	973
Less: reclassification adjustment for gains realized in net income, net of income tax expense of \$80 and \$1,752	(140)	(468)
	(3,014)	(2,041)
Other comprehensive loss	(1,731)	(871)
Comprehensive income	\$ 135,358	\$ 125,149
Basic earnings per common share	\$ 1.36	\$ 1.21
Diluted earnings per common share	\$ 1.32	\$ 1.19
Dividends declared per common share	\$.11	\$.10

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

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

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 137,089	\$ 126,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,328	12,050
Undistributed equity in the earnings of unconsolidated affiliate	(12,448)	(10,909)
Tax benefit on stock options exercised	4,189	6,795
Gain on partial sale of unconsolidated affiliate	(941)	(3,097)
Provision for losses on receivables	(331)	(100)
Deferred income tax expense	19,312	11,943
Net realized gains on investments available for sale	(219)	(5,745)
Write-off of capitalized software	3,587	—
Other	(2,480)	(765)
Change in current assets and liabilities:		
Decrease (increase) in		
Restricted cash	4,383	(7,969)
Receivables from regulated investment companies	(1,300)	458
Receivables	(8,446)	(19,727)
Prepaid expenses and other current assets	610	480
Increase (decrease) in		
Accounts payable	(1,197)	(3,970)
Payable to regulated investment companies	(4,273)	(40,950)
Payable to customer	(235)	49,561
Accrued expenses	(5,669)	3,950
Deferred revenue	(2,004)	1,421
Net cash provided by operating activities	<u>142,955</u>	<u>119,446</u>
Cash flows from investing activities:		
Additions to property and equipment	(12,681)	(8,679)
Additions to capitalized software	(49,943)	(24,048)
Purchase of investments available for sale	(16,186)	(25,484)
Partial sale of investment in unconsolidated affiliate	—	6,183
Sale of investments available for sale	4,871	41,548
Other	244	12
Net cash used in investing activities	<u>(73,695)</u>	<u>(10,468)</u>
Cash flows from financing activities:		
Payment on long-term debt	(8,167)	(11,773)
Purchase and retirement of common stock	(129,032)	(97,309)
Proceeds from issuance of common stock	5,965	7,670
Payment of dividends	(21,283)	(19,748)
Net cash used in financing activities	<u>(152,517)</u>	<u>(121,160)</u>
Net decrease in cash and cash equivalents	(83,257)	(12,182)
Cash and cash equivalents, beginning of period	<u>216,966</u>	<u>199,953</u>
Cash and cash equivalents, end of period	<u>\$ 133,709</u>	<u>\$ 187,771</u>

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

Notes to Consolidated Financial Statements
(all figures are in thousands except per share data)

Note 1. Summary of Significant Accounting Policies

Nature of Operations

SEI Investments Company (the Company), a Pennsylvania corporation, provides investment processing, fund processing, and investment management business outsourcing solutions to corporations, financial institutions, financial advisors, and affluent families in the United States, Canada, the United Kingdom, Continental Europe, and other various locations throughout the world. Investment processing solutions utilize the Company's proprietary software system to track investment activities in multiple types of investment accounts, including personal trust, corporate trust, institutional trust, and non-trust investment accounts, thereby allowing banks and trust companies to outsource trust and investment related activities.

The fund processing solution offers a full range of administration and distribution support services to mutual funds, collective trust funds, hedge funds, fund of funds, private equity funds and other types of investment funds. Administrative services include fund accounting, trustee and custodial support, legal support, transfer agency and shareholder servicing. Distribution support services range from market and industry insight and analysis to identifying distribution opportunities.

Investment management programs consist of Company-sponsored mutual funds, alternative investments and separate accounts. These include a series of money market, equity, fixed-income and alternative investment portfolios, primarily in the form of registered investment companies. The Company serves as the administrator and investment advisor for many of these products.

The Company is organized around its primary target markets. The Company's business segments are: Private Banking and Trust, Investment Advisors, Enterprises, Money Managers, and Investments in New Businesses. Financial information pertaining to the Company's business segments is included in Note 9.

Summary Financial Information and Results of Operations

In the opinion of the Company, the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of September 30, 2005, the results of operations for the three and nine months ended September 30, 2005 and 2004, and cash flows for the nine month periods ended September 30, 2005 and 2004.

Interim Financial Information

While the Company believes that the disclosures presented are adequate to make the information not misleading, these Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in the Company's latest Annual Report on Form 10-K.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. The Company's principal subsidiaries are SEI Investments Distribution Co. (SIDCO), SEI Investments Management Corporation (SIMC), and SEI Private Trust Company (SPTC). All intercompany accounts and transactions have been eliminated. Investment in unconsolidated affiliate is accounted for using the equity method due to the Company's less than 50 percent ownership. The Company's portion of the affiliate's operating results is reflected in Equity in the earnings of unconsolidated affiliate on the accompanying Consolidated Statements of Operations (See Note 4).

In 2004, the Company adopted the revised interpretation of Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," (FIN 46-R). FIN 46-R requires that certain variable interest entities be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. The Company does not have any investments in entities it believes are variable interest entities for which the Company is the primary beneficiary.

Management's Use of Estimates

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

Revenue Recognition

The Company's principal sources of revenue consist of information processing and software services; management, administration, advisory, and distribution of mutual funds; brokerage and consulting services; and other asset management products and services. Revenues from these services are recognized in the periods in which they are performed provided that pervasive evidence of an agreement exists, the fee is fixed or determinable, and collectibility is reasonably assured. Cash received by the Company in advance of the performance of services is deferred and recognized as revenue when earned. Reimbursements received for out-of-pocket expenses incurred are recorded as revenue.

Cash and Cash Equivalents

The Company considers investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents includes \$79,375 and \$148,974 at September 30, 2005 and December 31, 2004, respectively, primarily invested in Company-sponsored open-ended money market mutual funds.

Restricted Cash

Restricted cash includes cash of \$654 at December 31, 2004 reserved for the payment of expenses of regulated investment companies (RICs) for which SIMC serves as the administrator. Restricted cash at December 31, 2004 also includes cash of \$3,648 received for the benefit of customers of SIDCO in order to settle investment transactions for RICs. SIMC, in its capacity as the administrator and transfer agent, facilitates the payment of fund expenses and investment transactions for SIDCO customers, respectively. Corresponding liabilities are established for payment to the RICs, which is reflected in Payable to regulated investment companies on the accompanying Consolidated Balance Sheets. The total balance of cash received from such parties is typically paid the following business day.

Additionally, Restricted cash at September 30, 2005 and December 31, 2004 includes \$10,000 and \$10,084, respectively, segregated in special reserve accounts for the benefit of SIDCO customers in accordance with certain rules established by the Securities and Exchange Commission for broker-dealers.

Allowances for Doubtful Accounts

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

Concentration of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of cash equivalents, marketable securities, and trade receivables. Cash equivalents are principally invested in short-term money market funds or placed with major banks and high-credit qualified financial institutions. Cash deposits maintained with institutions are in excess of federally insured limits. Marketable securities primarily consist of those of a regulated investment company with underlying investments in federal agency mortgage-backed securities and a diversified equity investment vehicle. Concentrations of credit risk with respect to our receivables are limited due to the large number of clients and their dispersion across geographic areas. No single group or customer represents greater than ten percent of total accounts receivable.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated

useful lives using the straight line method for financial statement purposes. The Company uses other depreciation methods, generally accelerated, for tax purposes where appropriate. Buildings and building improvements are depreciated over 25 to 39 years. Equipment, purchased software and furniture and fixtures have useful lives ranging from three to five years. Amortization of leasehold improvements is computed using the straight line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Marketable Securities

The Company accounts for investments in marketable securities pursuant to Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. Currently, the Company only has marketable securities classified as available for sale. SFAS 115 requires that debt and equity securities classified as available for sale be reported at fair value as determined by the most recently traded price for each security at the balance sheet date. Unrealized holding gains and losses, net of income taxes, are reported as a separate component of comprehensive income. The specific identification method is used to compute the realized gains and losses on marketable securities (See Note 3).

The Company evaluates the realizable value of its marketable securities on a quarterly basis. Factors considered in determining other-than-temporary declines in value include how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, and the likelihood of the investment to recover its original cost. If it is determined that an other-than-temporary decline exists in a marketable security, the investment is written down to its market value and an investment loss is recorded in the Statement of Operations. No charges related to an other-than-temporary decline have been taken for the Company's marketable securities in the three and nine month periods ended September 30, 2005.

Derivative Instruments and Hedging Activities

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

The Company accounts for its derivatives in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of FASB Statement No. 133," and Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Company records all derivatives on its balance sheet at fair value. The Company determines if the instrument qualifies as an effective fair value hedge on the date the derivative is entered into and monitors this determination on an ongoing basis. If the derivative instrument qualifies as an effective fair value hedge according to established accounting guidance, the Company will apply hedge accounting. As of September 30, 2005, hedge accounting does not apply to any of the Company's derivatives.

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

The Company holds equity derivatives with a notional amount of \$11,602 and an expected maturity date in 2006. The Company recognized net losses of \$379 and \$169 in the three months ended September 30, 2005 and 2004, respectively, from changes in the fair value of derivative instruments. In the nine months ended September 30, 2005 and 2004, the Company recognized net losses of \$293 and \$193, respectively, from derivative instruments. These gains and losses are reflected in Net gain from investments on the accompanying Consolidated Statements of Operations.

Capitalized Software

The Company accounts for software development costs in accordance with the guidance established in Emerging Issues Task Force (EITF) Issue No. 00-03 "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware," and applies Statement of Position 98-1 (SOP 98-1) "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," for development costs associated with software products to be provided in a hosting environment. As required by SOP 98-1, the Company capitalizes the costs incurred during the application development stage, which includes direct external and internal costs for designing, coding, installing, and testing the software configuration and interfaces. Costs incurred during the preliminary project along with post-implementation stages are expensed as incurred. Costs incurred to maintain existing product offerings are expensed as incurred. The capitalization and ongoing assessment of recoverability of software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life. The Company capitalized \$49,943 and \$24,048 of software development costs in accordance with SOP 98-1 during the nine months ended September 30, 2005 and 2004, respectively.

Amortization of capitalized software development costs begins when the product is placed into service. Capitalized software development costs are amortized on a product-by-product basis using the straight-line method over the estimated economic life of the product or enhancement, which is primarily three to ten years, with a weighted average remaining life of approximately 4.4 years. Amortization expense was \$1,756 and \$1,614 during the nine months ended September 30, 2005 and 2004, respectively, and is included in Operating and development expenses on the accompanying Consolidated Statements of Operations.

The Company determined during 2005 that software purchased from a third party vendor that was capitalized as part of the development of a new platform did not satisfy all of the expected functionality requirements. The Company has discontinued its relationship with this vendor. As a result, \$3,587 of previously capitalized software development costs was written-off. Additionally, the Company removed \$1,922 of unpaid liabilities to this vendor directly associated with the amount that was capitalized. As a result, the Company recorded a net charge of \$1,665 to Operating and development expenses on the accompanying Consolidated Statements of Operations during the nine months ended September 30, 2005.

Income Taxes

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

Foreign Currency Translation

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

Fair Value of Financial Instruments

The book value of current assets and current liabilities is considered to be representative of their fair value because of their short maturities. The book value of long-term debt is considered to be representative of its fair value based upon an estimation using borrowing rates currently available to the Company for bank loans with similar terms and maturities. The recorded value of these items approximates their fair value.

Earnings per Share

The Company calculates earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share." Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is computed by dividing net income available to common shareholders by the combination of the weighted average number of common shares outstanding and the dilutive potential common shares, such as stock options, outstanding during the period. The calculations of basic and diluted earnings per share for the three months ended September 30, 2005 and 2004 are:

	For the Three Month Period Ended September 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 49,196	99,814	\$.49
Dilutive effect of stock options	—	2,781	
Diluted earnings per common share	\$ 49,196	102,595	\$.48

	For the Three Month Period Ended September 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 45,407	102,904	\$.44
Dilutive effect of stock options	—	2,064	
Diluted earnings per common share	\$ 45,407	104,968	\$.43

Employee stock options to purchase 4,598,000 and 2,521,000 shares of common stock, with an average exercise price of \$44.53 and \$46.01, were outstanding during the three month periods ended September 30, 2005 and 2004, respectively, but not included in the computation of diluted earnings per common share because the exercise price of the options was greater than the average market price of the Company's common stock, and the effect on diluted earnings per common share would have been anti-dilutive. The calculations of basic and diluted earnings per share for the nine months ended September 30, 2005 and 2004 are:

	For the Nine Month Period Ended September 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 137,089	100,792	\$ 1.36
Dilutive effect of stock options	—	2,768	
Diluted earnings per common share	\$ 137,089	103,560	\$ 1.32

	For the Nine Month Period Ended September 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 126,020	103,736	\$ 1.21
Dilutive effect of stock options	—	2,305	
Diluted earnings per common share	\$ 126,020	106,041	\$ 1.19

Employee stock options to purchase 4,598,000 and 2,554,000 shares of common stock, with an average exercise price of \$44.53 and \$45.48, were outstanding during the nine month periods ended September 30, 2005 and 2004, respectively, but not included in the computation of diluted earnings per common share because the exercise price of the options was greater than the average market price of the Company's common stock, and the effect on diluted earnings per common share would have been anti-dilutive.

Stock-Based Compensation

The Company accounts for its employee stock options based upon their intrinsic value on the date of grant pursuant to Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." The Company grants stock options to its employees based on the fair market value of the Company's stock at the date of grant. Since the stock options have no intrinsic value upon grant, the Company does not record any compensation cost.

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," requires the presentation of the pro-forma effects of stock-based compensation on net income and earnings per common share. The Company uses the Black-Scholes option-pricing model to value its employee stock options.

For the following pro-forma disclosures as required by SFAS 123, the estimated fair value of stock options is assumed to be amortized to expense over the stock options' vesting period. The following table presents the pro-forma effects on net income and earnings per common share if the Company had recognized compensation expense relating to its employee stock options.

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2005	2004	2005	2004
Net Income:				
As reported	\$ 49,196	\$ 45,407	\$ 137,089	\$ 126,020
Deduct: Total stock-based employee expense determined under the fair value based method for all awards, net of related tax effects	(4,814)	(3,535)	(14,245)	(10,320)
Pro forma	\$ 44,382	\$ 41,872	\$ 122,844	\$ 115,700
Basic earnings per common share				
As reported	\$.49	\$.44	\$ 1.36	\$ 1.21
Pro forma	\$.44	\$.41	\$ 1.22	\$ 1.12
Diluted earnings per common share				
As reported	\$.48	\$.43	\$ 1.32	\$ 1.19
Pro forma	\$.43	\$.40	\$ 1.19	\$ 1.09

Comprehensive Income

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

	<u>Foreign Currency Translation Adjustments</u>	<u>Unrealized Holding Gains (Losses) on Investments</u>	<u>Accumulated Other Comprehensive Gains (Losses)</u>
Beginning balance (Dec. 31, 2004)	\$ 5,359	\$ 792	\$ 6,151
Current period change	(1,263)	(468)	(1,731)
Ending balance (Sept. 30, 2005)	<u>\$ 4,096</u>	<u>\$ 324</u>	<u>\$ 4,420</u>

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.

Supplemental disclosures of cash paid/received during the nine months ended September 30 are as follows:

	<u>2005</u>	<u>2004</u>
Interest paid	\$ 1,496	\$ 2,073
Interest and dividends received	5,589	2,909
Income taxes paid	46,828	50,276

New Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), "Share-Based Payment." SFAS 123(R) revises SFAS 123 and supersedes APB 25. SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services, incurs liabilities in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, but does not change the accounting guidance for share-based payment transactions with parties other than employees. The accounting provisions of SFAS 123(R) are effective for the annual period beginning January 1, 2006. The primary impact that SFAS 123(R) will have on the Company's financial statements is the requirement to expense the fair value of its employee stock options rather than disclosing that information in a set of pro-forma financial statements. The Company will adopt the modified prospective application transition method in accordance with SFAS 123(R) in the first quarter of 2006. The Company is in the process of evaluating the full impact that the adoption of SFAS 123(R) will have on its financial statements. Currently, the Company does not anticipate any significant changes to its equity compensation plans.

Reclassifications

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

Note 2. Composition of Certain Financial Statement CaptionsReceivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Trade receivables	\$ 25,304	\$ 21,015
Fees earned, not billed	61,707	57,923
Other receivables	2,342	1,969
	<u>89,353</u>	<u>80,907</u>
Less: Allowance for doubtful accounts	(1,469)	(1,800)
	<u>\$ 87,884</u>	<u>\$ 79,107</u>

Fees earned, not billed represents receivables earned but unbilled and results from timing differences between services provided and contractual billing schedules.

Receivables from regulated investment companies on the accompanying Consolidated Balance Sheets primarily represent fees receivable for distribution, investment advisory, and administration services provided by two of the Company's wholly-owned subsidiaries, SIDCO and SIMC, to various regulated investment companies sponsored by the Company.

Property and Equipment

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

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Equipment	\$ 61,691	\$ 60,279
Buildings	98,233	97,767
Land	9,444	9,380
Purchased software	29,777	27,653
Furniture and fixtures	16,614	15,334
Leasehold improvements	2,957	2,803
Construction in progress	2,021	948
	<u>220,737</u>	<u>214,164</u>
Less: Accumulated depreciation and amortization	(105,688)	(100,524)
Property and Equipment, net	<u>\$ 115,049</u>	<u>\$ 113,640</u>

Other Assets

Other Assets on the accompanying Consolidated Balance Sheets consist of:

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Investment in unconsolidated affiliate	\$ 49,344	\$ 37,672
Other, net	12,907	12,837
Other assets	<u>\$ 62,251</u>	<u>\$ 50,509</u>

Investment in unconsolidated affiliate relates to the Company's 43 percent ownership in the general partnership LSV Asset Management (See Note 4). Other, net consists of long-term prepaid expenses, deposits, investments carried at cost, and various other assets.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2005	December 31, 2004
Accrued compensation	\$ 36,759	\$ 44,360
Accrued sub-advisor and investment officer fees	9,712	12,751
Accrued consulting	9,406	9,135
Accrued income taxes	11,561	4,239
Other accrued liabilities	56,397	69,472
Total accrued liabilities	\$ 123,835	\$ 139,957

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

Note 3. Investments Available for Sale

Investments available for sale consist of:

	As of September 30, 2005			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Company-sponsored mutual funds	\$42,363	\$ —	\$ (1,146)	\$41,217
Non-company-sponsored mutual funds	87	—	—	87
Equity securities	9,040	1,655	—	10,695
	\$51,490	\$ 1,655	\$ (1,146)	\$51,999

	As of December 31, 2004			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Company-sponsored mutual funds	\$26,382	\$ 5	\$ (514)	\$25,873
Non-company-sponsored mutual funds	3,501	—	—	3,501
Equity securities	8,695	1,748	—	10,443
	\$38,578	\$ 1,753	\$ (514)	\$39,817

The net unrealized holding gains at September 30, 2005 were \$324 (net of income tax expense of \$185) and at December 31, 2004 were \$792 (net of income tax expense of \$447) and are reported as a separate component of Accumulated other comprehensive gains on the accompanying Consolidated Balance Sheets. Equity securities represent a portfolio of stocks managed by the Company's unconsolidated affiliate.

During the three months ended September 30, 2005 and 2004, the Company recognized gross realized gains from available-for-sale securities of \$249 and \$613, respectively. During the nine months ended September 30, 2005 and 2004, the Company recognized gross realized gains of \$512 and \$4,822, respectively. There were no realized losses recognized during 2005. Gross realized losses from available-for-sale securities in the three and nine month periods ended September 30, 2004 were immaterial.

At September 30, 2005, the Company had a single investment in a Company-sponsored mutual fund that has been in an unrealized loss position longer than one year. This mutual fund primarily invests in federal agency mortgage-backed securities and has a positive total return due to the amount of

monthly dividends paid to the Company. The cost basis of this investment was \$42,353 with a fair value of \$41,207 and a gross unrealized loss of \$1,146. The Company does not consider this unrealized loss as an other-than-temporary impairment because it is not a precipitous decline in market value.

Note 4. 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 number of Company-sponsored mutual funds. The Company accounts for its interest in LSV using the equity method of accounting due to its less than 50 percent ownership. The Company's total partnership interest in LSV was approximately 43 percent for the first nine months 2005.

For the first six months of 2004, the Company's partnership interest in LSV was approximately 46 percent. On July 1, 2004, the Company sold a small percentage of its interest in LSV to certain other partners of LSV, reducing the partnership interest to 43 percent. Total proceeds received from the sale were \$6,183 and the basis of the Company's investment relating to the sold interest was \$1,614, resulting in a total gain of \$4,569. Certain partners paid the Company directly whereas certain other partners elected to finance their purchase through LSV. The Company realized \$3,097 of the gain in 2004 and deferred the remaining portion of the gain of \$1,472. The Company will recognize an amount of the deferred gain according to the Company's partnership interest of the outstanding balance owed to the partnership. During the third quarter of 2005, the Company recognized \$941 of the deferred gain as other income. The remaining portion of the deferred gain will be recognized by the Company when payments are received by LSV from the partners that financed their purchase. The final payments are due on January 1, 2006. The amount of the deferred gain at September 30, 2005 and December 31, 2004 is reflected as Deferred gain on the accompanying Consolidated Balance Sheets. The remaining balance of \$531 of Deferred gain at September 30, 2005 reflects the amount which the Company still has at risk of the total outstanding balance owed to the partnership.

At September 30, 2005, the Company's investment in LSV exceeded its underlying equity in the net assets of LSV by \$6,447, of which \$3,385 is considered finite-lived intangible assets and the remaining \$3,062 is considered goodwill embedded in the investment. The finite-lived intangible assets primarily relate to customer contracts that meet the contractual-legal criterion for recognition apart from goodwill. The Company amortizes the finite-lived intangible assets on a straight-line basis over eight and a half years. The Company recorded \$328 in amortization expense during the nine months ended September 30, 2005. Total accumulated amortization at September 30, 2005 was \$436. No amortization expense was recorded in the first nine months of 2004. The Company does not record amortization expense associated with the embedded goodwill. The Company determines on an annual basis if its investment in LSV is impaired which includes the embedded goodwill. The Company's investment in LSV is considered General and Administrative and is not included in a business segment.

The following table contains the condensed statements of operations of LSV for the three and nine months ended September 30:

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2005	2004	2005	2004
Revenues	\$ 55,118	\$ 31,643	\$ 141,663	\$ 81,135
Net income	\$ 49,075	\$ 27,592	\$ 126,152	\$ 70,166

The following table contains the condensed balance sheets of LSV:

	September 30, 2005	December 31, 2004
Cash and cash equivalents	\$ 43,451	\$ 29,962
Accounts receivable	58,435	43,413
Other current assets	214	201
Non-current assets	579	693
Total assets	\$ 102,679	\$ 74,269
Current liabilities	\$ 6,296	\$ 5,556
Partners' capital	96,383	68,713
Total liabilities and partners' capital	\$ 102,679	\$ 74,269

Note 5. Line of Credit

On September 14, 2004, the Company entered into a three-year \$200,000 Credit Agreement (the Credit Facility) replacing the Company's \$200,000 364-Day Credit Agreement which expired on September 13, 2004. The Credit Facility became available immediately and expires on September 14, 2007 at which time any aggregate principal amount of loans outstanding becomes payable in full. The Credit Facility, when utilized, will accrue interest at 0.75 percent above the London Interbank Offer Rate (LIBOR). There is also a commitment fee equal to 0.15 percent per annum on the daily unused portion of the Credit Facility. The Credit Facility contains various covenants, including, but not limited to, limitations of indebtedness, maintenance of fixed charge and leverage ratios, and restrictions on certain investments. Both the interest rate and commitment fee prices may increase if the Company's leverage ratio reaches certain levels. None of these covenants negatively affect the Company's liquidity or capital resources. The Company was in compliance with all covenants associated with the Credit Facility during the nine month period ended September 30, 2005. During the nine month period ended September 30, 2005, the Company had no borrowings under the Credit Facility.

Note 6. Long-term Debt

On February 24, 1997, the Company signed a Note Purchase Agreement authorizing the issuance and sale of \$20,000 of 7.20 percent Senior Notes, Series A, and \$15,000 of 7.27 percent Senior Notes, Series B (collectively, the Notes), in a private offering with certain financial institutions. The Notes are unsecured with final maturities ranging from 10 to 15 years. The proceeds from the Notes were used to repay the outstanding balance on the Company's line of credit at that date. The Note Purchase Agreement, which was subsequently amended, contains various covenants, including limitations on indebtedness, maintenance of minimum net worth levels, and restrictions on certain investments. In addition, the Note Purchase Agreement limits the Company's ability to merge or consolidate, and to sell certain assets. Principal payments on the Notes are made annually from the date of issuance while interest payments are made semi-annually. The Company made its scheduled payment of \$4,000 in February 2005. The remaining unpaid principal balance of the Notes at September 30, 2005 was \$13,000, of which \$4,000 is classified as current.

On June 26, 2001, the Company entered into a \$25,000 Term Loan Agreement (the Agreement) with a separate lending institution which expires on March 31, 2006 and is payable in 17 equal quarterly installments. On August 2, 2001, the Company borrowed the full \$25,000. The Agreement provides the Company the option to have interest accrued at either the lower of the Prime rate or one and thirty-five hundredths of one percent above LIBOR. The Agreement contains various covenants, including limitations on indebtedness and restrictions on certain investments. None of these covenants negatively affect the Company's liquidity or capital resources. The Company made its scheduled payments during 2005 for a total of \$4,167. The remaining unpaid principal balance of the Agreement at September 30, 2005 was \$2,778, which is classified as current. The interest rate being applied at September 30, 2005 was 4.84%.

The Company was in compliance with all covenants associated with its long-term debt during the nine month period ended September 30, 2005.

Note 7. Common Stock Buyback

The Company's Board of Directors has authorized the repurchase of the Company's common stock on the open market or through private transactions of up to an aggregate of \$1,003,365. Through September 30, 2005, a total of 117,677,000 shares at an aggregate cost of \$966,291 have been purchased and retired. The Company purchased 3,533,000 shares at a total cost of \$129,032 during the nine months ended September 30, 2005.

The Company immediately retires its common stock when purchased. Upon retirement, the Company reduces Capital in excess of par value for the average capital per share outstanding and the remainder is charged against Retained earnings. If the Company reduces its Retained earnings to zero, any subsequent purchases of common stock will be charged entirely to Capital in excess of par value.

Note 8. Contingencies

In the normal course of business, the Company is party to various claims and legal proceedings. On September 30, 2004, SIDCO was named as a defendant in a putative consolidated amended class action complaint filed in the United States District Court for the District of Maryland titled "Stephen Carey v. Pilgrim Baxter & Associates, LTD, et. al." This complaint is purportedly made on behalf of all persons that purchased or held PBHG mutual funds during the period from November 1, 1998 to November 13, 2003 and relates generally to various market timing practices allegedly permitted by the PBHG Funds. The complaint alleges that SIDCO was the named distributor/underwriter from November 1998 until July 2001 for various PBHG funds in which market timing allegedly occurred during that period. While the outcome of this litigation is uncertain, SIDCO believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously. The Company has not made any provision relating to this legal proceeding.

In April, 2005, the Company and a subsidiary were named as defendants in a complaint (the "Vermeg Complaint") filed by Vermeg Services S.A.R.L., a Tunisian company, in the United States District Court for the Eastern District of Pennsylvania. The subsidiary of the Company terminated a software license and services contract with Vermeg in March, 2005 citing failure of the Vermeg software to meet acceptance and performance criteria under the contract. The Vermeg Complaint seeks monetary damages which it alleges arose out of the purported breach of such contract by the Company and its subsidiary as well as various other relief arising from the alleged misappropriation of Vermeg software and related information that Vermeg alleges is proprietary to Vermeg. While the outcome of this litigation is uncertain, the Company and its subsidiary believe that they have valid defenses to plaintiff's claims and intend to defend the lawsuit vigorously. The Company has not made any provision relating to this legal proceeding.

Note 9. Business Segment Information

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

The Company evaluates financial performance of its business segments based on Income from operations. The operations and organizational structure of the Company are established into separate business units that offer business solutions tailored for particular markets. Reportable business segments are: Private Banking and Trust, Investment Advisors, Enterprises, Money Managers, and Investments in New Businesses. The accounting policies of the reportable business segments are the same as those described in Note 1.

Private Banking and Trust provides investment processing, fund processing, and investment management programs to banks and other trust institutions located in the United States and 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. Enterprises provides investment management programs that offer retirement and treasury solutions to corporations, unions, municipalities, and hospitals and an endowment and foundation solution for the not-for-profit market in the United States. Money Managers provides investment processing and fund processing to investment managers and mutual fund companies located in the United States and to investment managers worldwide of alternative asset classes such as hedge funds, fund of funds, and private equity funds. Investments in New Businesses provides investment management programs and fund processing to investment advisors, corporations, and money managers located outside the United States, investment processing solutions to institutions in the United Kingdom and Continental Europe, as well as expanding our investment management programs to include affluent families who reside in the United States.

The information in the following tables is derived from the Company's internal financial reporting used for corporate management purposes. There are no inter-segment revenues for the three and nine months ended September 30, 2005 and 2004. Management evaluates Company assets on a consolidated basis during interim periods.

The following tables highlight certain unaudited financial information about each of the Company's business segments for the three months ended September 30, 2005 and 2004.

For the Three Month Period Ended September 30, 2005

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	General and Administrative	Total
Revenues	\$ 67,793	\$ 53,142	\$ 22,004	\$ 22,707	\$ 28,013		\$ 193,659
Operating income (loss)	\$ 23,582	\$ 28,978	\$ 9,721	\$ 3,362	\$ (4,131)	\$ (8,212)	\$ 53,300
Other income, net							\$ 23,377
Income before income taxes							\$ 76,677
Depreciation and amortization	\$ 2,531	\$ 660	\$ 171	\$ 454	\$ 513	\$ 363	\$ 4,692
Capital expenditures	\$ 10,587	\$ 4,099	\$ 1,863	\$ 1,323	\$ 1,946	\$ 1,176	\$ 20,994

For the Three Month Period Ended September 30, 2004

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	General and Administrative	Total
Revenues	\$ 69,360	\$ 45,967	\$ 18,347	\$ 20,523	\$ 18,781		\$ 172,978
Operating income (loss)	\$ 29,674	\$ 24,995	\$ 8,112	\$ 3,573	\$ (4,747)	\$ (7,054)	\$ 54,553
Other income, net							\$ 16,674
Income before income taxes							\$ 71,227
Depreciation and amortization	\$ 2,050	\$ 560	\$ 174	\$ 357	\$ 401	\$ 292	\$ 3,834
Capital expenditures	\$ 6,482	\$ 2,308	\$ 1,049	\$ 718	\$ 1,010	\$ 663	\$ 12,230

The following tables highlight certain unaudited financial information about each of the Company's business segments for the nine months ended September 30, 2005 and 2004.

For the Nine Month Period Ended September 30, 2005

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	General and Administrative	Total
Revenues	\$ 211,721	\$ 151,205	\$ 62,939	\$ 64,081	\$ 79,474		\$ 569,420
Operating income (loss)	\$ 76,173	\$ 80,820	\$ 28,447	\$ 10,223	\$ (15,004)	\$ (25,331)	\$ 155,328
Other income, net							\$ 59,546
Income before income taxes							\$ 214,874
Depreciation and amortization	\$ 7,104	\$ 1,846	\$ 492	\$ 1,274	\$ 1,501	\$ 1,111	\$ 13,328
Capital expenditures	\$ 31,142	\$ 12,731	\$ 5,786	\$ 4,061	\$ 5,250	\$ 3,654	\$ 62,624

For the Nine Month Period Ended September 30, 2004

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	General and Administrative	Total
Revenues	\$ 218,137	\$ 132,198	\$ 50,617	\$ 56,471	\$ 51,878		\$ 509,301
Operating income (loss)	\$ 86,805	\$ 72,305	\$ 23,168	\$ 10,457	\$ (13,760)	\$ (22,651)	\$ 156,324
Other income, net							\$ 41,354
Income before income taxes							\$ 197,678
Depreciation and amortization	\$ 6,667	\$ 1,845	\$ 570	\$ 1,000	\$ 1,193	\$ 775	\$ 12,050
Capital expenditures	\$ 17,757	\$ 5,850	\$ 2,659	\$ 1,839	\$ 2,943	\$ 1,679	\$ 32,727

Note 10. Income Taxes

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The Company has completed an assessment of the impact of repatriating earnings that have not been remitted to the U.S. according to the provisions of the Act. Based upon the assessment, there will not be any repatriating of earnings of controlled foreign corporations.

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 September 30, 2005 and 2004, the consolidated results of operations for the three and nine months ended September 30, 2005 and 2004 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

Our Business and Business Segments

We are a leading global provider of investment processing, fund processing, and investment management business outsourcing solutions that help corporations, financial institutions, financial advisors, and affluent families create and manage wealth. Our outsourcing business solutions consist mainly of investment processing, fund processing, and investment management. Investment processing fees are earned as monthly fees for contracted services including computer processing services, software licenses, and trust operations services, as well as, transaction-based fees for providing securities valuation and trade-execution. Fund processing and investment management fees are earned as a percentage of average assets under management or administration. As of September 30, 2005, through our subsidiaries and partnerships in which we have a significant interest, we administer \$321.7 billion in mutual fund and pooled assets, manage \$138.5 billion in assets, and operate 22 offices in 12 countries.

We conduct business through five business segments offering our business solutions to specific target markets. These business segments are:

Private Banking and Trust – provides investment processing, fund processing, and investment management programs to banks and other trust institutions located in the United States and 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;

Enterprises – provides investment management programs that offer retirement and treasury solutions to corporations, unions, municipalities, and hospitals, and an endowment solution for the not-for-profit market in the United States;

Money Managers – provides investment processing and fund processing to investment managers and mutual fund companies in the United States and to investment managers worldwide of alternative asset classes such as hedge funds, fund of funds, and private equity funds; and

Investments in New Businesses – provides investment management programs and fund processing to investment advisors, corporations, and money managers located outside the United States and investment processing solutions to institutions in the United Kingdom and Continental Europe. This segment also includes our investment programs offered to affluent families who reside in the United States.

Financial Results

Revenues, Expenses and Income from Operations by business segment for the three and nine months ended September 30, 2005 compared to the three and nine months ended September 30, 2004 were as follows:

	For the Three Month Period Ended September 30,			For the Nine Month Period Ended September 30,		
	2005	2004	Percent Change	2005	2004	Percent Change
Revenues:						
Private Banking and Trust	\$ 67,793	\$ 69,360	(2%)	\$ 211,721	\$ 218,137	(3%)
Investment Advisors	53,142	45,967	16%	151,205	132,198	14%
Enterprises	22,004	18,347	20%	62,939	50,617	24%
Money Managers	22,707	20,523	11%	64,081	56,471	13%
Investments in New Businesses	28,013	18,781	49%	79,474	51,878	53%
Total revenues	193,659	172,978	12%	569,420	509,301	12%
Operating and development expenses:						
Private Banking and Trust	35,831	30,217	19%	108,655	101,300	7%
Investment Advisors	18,076	13,785	31%	51,611	38,124	35%
Enterprises	6,796	5,502	24%	19,010	13,751	38%
Money Managers	15,716	13,517	16%	43,433	35,491	22%
Investments in New Businesses	23,214	15,940	46%	68,431	43,623	57%
Total operating and development expenses	99,633	78,961	26%	291,140	232,289	25%
Sales and marketing expenses:						
Private Banking and Trust	8,380	9,469	(12%)	26,893	30,032	(10%)
Investment Advisors	6,088	7,187	(15%)	18,774	21,769	(14%)
Enterprises	5,487	4,733	16%	15,482	13,698	13%
Money Managers	3,629	3,433	6%	10,425	10,523	(1%)
Investments in New Businesses	8,930	7,588	18%	26,047	22,015	18%
Total sales and marketing expenses	32,514	32,410	—	97,621	98,037	—
Income from business segments:						
Private Banking and Trust	23,582	29,674	(21%)	76,173	86,805	(12%)
Investment Advisors	28,978	24,995	16%	80,820	72,305	12%
Enterprises	9,721	8,112	20%	28,447	23,168	23%
Money Managers	3,362	3,573	(6%)	10,223	10,457	(2%)
Investments in New Businesses	(4,131)	(4,747)	13%	(15,004)	(13,760)	(9%)
Total income from business segments	61,512	61,607	—	180,659	178,975	1%
General and administrative expenses	8,212	7,054	16%	25,331	22,651	12%
Income from operations	53,300	54,553	(2%)	155,328	156,324	(1%)
Other income, net	23,377	16,674	40%	59,546	41,354	44%
Income before income taxes	76,677	71,227	8%	214,874	197,678	9%
Income taxes	27,481	25,820	6%	77,785	71,658	9%
Net income	\$ 49,196	\$ 45,407	8%	\$ 137,089	\$ 126,020	9%
Diluted earnings per share	\$.48	\$.43	12%	\$ 1.32	\$ 1.19	11%

Asset Balances

This table presents assets of our clients, or of our clients' customers, for which we provide management or administrative services. These assets are not included in our balance sheets because we do not own them.

Asset Balances (In millions)	As of September 30,		Percent Change
	2005	2004	
Assets invested in equity and fixed-income programs	\$ 69,875	\$ 57,624	21%
Assets of unconsolidated affiliate invested in equity and fixed-income programs	43,192	26,835	61%
Assets invested in collective trust fund programs	13,864	12,304	13%
Assets invested in liquidity funds	11,607	13,068	(11%)
Assets under management	138,538	109,831	26%
Client proprietary assets under administration	183,163	165,628	11%
Assets under management and administration	\$ 321,701	\$ 275,459	17%

Assets of unconsolidated affiliate are assets of their clients for which they provide management services. 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 are 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.

Consolidated Summary

Consolidated revenues increased \$20.7 million, or 12 percent, to \$193.7 million for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. For the nine month period ended, revenues increased \$60.1 million, or 12 percent, to \$569.4 million compared to the prior year period. Income from operations decreased \$1.3 million, or two percent, to \$53.3 million and operating margin decreased to 28 percent from 32 percent for the three month period. For the nine month period, income from operations declined slightly to \$155.3 million and operating margin decreased to 27 percent from 31 percent. In the three month period, net income increased \$3.8 million, or eight percent, to \$49.2 million and diluted earnings per share increased to \$.48 per share as compared to \$.43 per share a year ago, an increase of 12 percent. In the nine month period, net income increased \$11.1 million, or nine percent, to \$137.1 million and diluted earnings per share increased to \$1.32 per share as compared to \$1.19 per share a year ago, an increase of 11 percent. In our opinion, the following items had a significant impact on our financial results for the three and nine month periods:

- The increase in revenues in both comparable periods was primarily driven by increased asset-based fees in our Investment Advisors, Enterprises and Investments in New Businesses segments due to capital market appreciation in 2004 and 2005. Rising capital markets increased the value of assets we manage for our existing clients, causing our base revenues to increase.
- New sales in our Enterprises, Money Managers and Investments in New Businesses segments also contributed to our revenue growth. We believe these sales of new business were due to a growing acceptance of our new and existing strategies and solutions in our target markets.
- Non-recurring investment processing project fees in our Private Banking and Trust segment increased \$6.0 million during the first nine months of 2005 compared to the prior year due to conversions of new bank clients, mergers and the deconversion of an existing client.
- Recurring investment processing revenues in our Private Banking and Trust segment increased \$4.3 million during the first nine months of 2005 compared to the prior year due primarily to new sales of our BSP solutions; however, this increase was partially offset by the loss of a significant large bank client of our ASP solutions.
- Fund processing fees in the Private Banking and Trust segment decreased \$11.9 million during the first nine months of 2005 compared to the prior year primarily from the loss of fund processing bank clients. Certain of these client losses, however, caused a corresponding reduction in direct fund processing expenses, minimizing the effect on our margins.

- In the Investment Advisors and Enterprises segments, revenues during the nine month period in 2005 were affected by the recognition on a gross basis of \$7.1 million of third party advisory fees related to our separate account program and pass-through fees associated with our 401(k) recordkeeping offering beginning in mid-2004. In the prior year comparable period, these revenues were reported net of the costs. This had the effect of increasing revenues and expenses by the same amount. The recognition of these revenues and expenses had no impact on the comparative figures for the three month periods because the accounting treatment was consistent between these timeframes.
- We continued to make significant expenditures for the development of our Global Wealth Platform as we progress through the development phase of this platform. The majority of these costs are eligible for capitalization; however, a portion is not eligible and is expensed as incurred. We capitalized \$49.9 million in the nine months ended September 30, 2005 and \$24.0 million in the comparable period of 2004 in software development costs for this platform. We expect to incur significant development costs throughout the remainder of 2005 and 2006.
- In the first quarter, it was determined that software purchased from a third party vendor intended for use in our Global Wealth Platform did not satisfy all of the expected functionality requirements. Prior capitalized development costs and associated unpaid liabilities were written-off, resulting in a net charge against earnings of \$1.7 million during the nine month period. This charge impacted all of our business segments.
- Consolidated operating margins declined in both periods due to increased personnel and other operating costs for investment management operations and business outsourcing solutions.
- During the third quarter, the Money Manager segment lost the domestic mutual fund accounting component of a client relationship. The loss of this business will have little impact on the fourth quarter and any profit impact in 2006 is expected to be offset by new business within the segment.
- Net income during both periods was primarily boosted by our investment in LSV. LSV recorded significant growth in revenues and earnings, mainly due to capital market appreciation and new sales. We currently have a 43 percent interest in LSV. Our earnings from LSV grew \$9.1 million, or 77 percent, in the three month period and \$22.3 million, or 71 percent, in the nine month period as compared to the prior year periods.
- We continued our stock repurchase program during 2005 and purchased approximately 1.1 million shares at an average price of approximately \$37 per share in the third quarter and approximately 3.5 million shares, also at an average price of approximately \$37 per share, in the nine month period. This caused our diluted earnings per common share to grow at a faster rate than our earnings.

Business Segments

Private Banking and Trust

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2005	2004	Percent Change	2005	2004	Percent Change
Revenues:						
Investment processing fees	\$ 54,952	\$ 54,381	1%	\$ 172,668	\$ 166,602	4%
Fund processing fees	4,283	6,247	(31%)	13,367	25,288	(47%)
Investment management fees	8,558	8,732	(2%)	25,686	26,247	(2%)
Total revenues	\$ 67,793	\$ 69,360	(2%)	\$ 211,721	\$ 218,137	(3%)

Revenues declined \$1.6 million, or two percent, in the three month period and \$6.4 million, or three percent, in the nine month period ended September 30, 2005 and were primarily affected by:

- The loss of fund processing bank clients in 2004;
- The deconversion of a large investment processing bank client, net of any related non-recurring fees; partially offset by
- An increase in non-recurring investment processing project fees related to the conversions of several large bank clients; and

- Increased investment processing fees from the addition of a large investment processing client and cross sales to existing clients.

Operating margins decreased to 35 percent, as compared to 43 percent in the three month period and to 36 percent, as compared to 40 percent in the nine month period. Operating income decreased by \$6.1 million, or 21 percent, in the three month period and \$10.6 million, or 12 percent, in the nine month period and was primarily affected by:

- Increased non-capitalized investment spending associated with the development of our Global Wealth Platform;
- Increased personnel and other operational costs necessary to deliver business outsourcing solutions;
- The write-off of previously capitalized development costs for our Global Wealth Platform in the first quarter of 2005;
- A decrease in revenues; and
- A one-time reduction in direct expenses from the loss of a large bank client in the third quarter of 2004; partially offset by
- Reduced sales compensation expenses due to the timing of sales events; and
- Non-recurring costs in 2004 associated with the relocation of our data center processing facility.

Investment Advisors

Revenues increased \$7.2 million, or 16 percent, in the three month period and \$19.0 million, or 14 percent, in the nine month period ended September 30, 2005 and were primarily affected by:

- Increased investment management fees from existing clients due to the appreciation of assets under management caused by capital market appreciation during 2004 and 2005; and
- The recognition on a gross basis of \$5.4 million in the first half of 2005 of pass-through revenue associated with our 401(k) recordkeeping offering and third party advisory fees related to our separate account program. The recognition of these revenues had no impact on the comparative figures for the three month periods because the accounting treatment was consistent between these timeframes.

Operating margins remained flat at 54 percent in the three month period and declined to 54 percent, as compared to 55 percent in the nine month period. Operating income increased by \$4.0 million, or 16 percent, in the three month period and \$8.5 million, or 12 percent, in the nine month period and was primarily affected by:

- An increase in revenues; and
- Non-recurring, estimated costs in the first quarter of 2004 of \$1.2 million in connection with the migration of client data to a new platform for processing third party mutual funds; partially offset by
- Increased non-capitalized investment spending associated with the development of our Global Wealth Platform;
- Increased personnel costs related to investment management operations;
- The write-off of previously capitalized development costs for our Global Wealth Platform in the first quarter of 2005; and
- The recognition of pass-through revenues and expenses mentioned above, which had the effect of increasing revenues and expenses by the same amount and negatively impacting operating margin. The recognition of these revenues and expenses had no impact on the comparative figures for the three month periods because the accounting treatment was consistent between these timeframes.

Enterprises

Revenues increased \$3.7 million, or 20 percent, in the three month period and \$12.3 million, or 24 percent, in the nine month period ended September 30, 2005 and were primarily affected by:

- Asset funding from new sales of our retirement solutions, mainly to large corporations;
- Increased assets under management from existing clients caused by capital market appreciation during 2004 and 2005; and
- The recognition on a gross basis of \$1.7 million in the first half of 2005 of pass-through revenue associated with our 401(k) recordkeeping offering in mid-2004. The recognition of these revenues had no impact on the comparative figures for the three month periods because the accounting treatment was consistent between these timeframes.

Operating margins remained flat at 44 percent in the three month period and declined to 45 percent, as compared to 46 percent in the nine month period. Operating income increased \$1.6 million, or 20 percent, in the three month period and \$5.3 million, or 23 percent, in the nine month period and was primarily affected by:

- An increase in revenues; less
- Increased personnel costs related to investment management operations; and
- The recognition of pass-through revenues and expenses mentioned above, which had the effect of increasing revenues and expenses by the same amount and negatively impacting operating margin. The recognition of these revenues and expenses had no impact on the comparative figures for the three month periods because the accounting treatment was consistent between these timeframes.

Money Managers

Revenues increased \$2.2 million, or 11 percent, in the three month period and \$7.6 million, or 13 percent, in the nine month period ended September 30, 2005 and were primarily affected by:

- Sales of new business including sales of our separately managed account processing solution;
- Cash flows from existing clients; and
- Sales of additional products to our existing clients; partially offset by
- Client losses; and
- A \$600 thousand non-recurring fee related to the buyout of an existing contract in the third quarter of 2004.

Operating margins decreased to 15 percent, as compared to 17 percent in the three month period and to 16 percent, as compared to 19 percent in the nine month period. Operating income decreased \$200 thousand, or six percent, in the three month period and \$200 thousand, or two percent, in the nine month period, and was primarily affected by:

- Increased investment spending in connection with the build out of our separately managed account and alternative investments operations; and
- Increased spending on personnel and other operating costs to support new business; partially offset by
- One-time operational costs recognized in the third quarter of 2004; and
- An increase in revenues.

Investments in New Businesses

Revenues increased \$9.2 million, or 49 percent, in the three month period and \$27.6 million, or 53 percent, in the nine month period ended September 30, 2005 and were primarily affected by:

- Asset funding from new and existing investment management relationships with institutions and investment advisors in Continental Europe, the United Kingdom, Canada and Hong Kong; and
- Increased assets under management from existing clients caused by capital market appreciation in 2004 and 2005; partially offset by
- The loss of a large distributor client in Continental Europe during the third quarter of 2005.

Losses from operations declined by \$600 thousand, or 13 percent, in the three month period and increased by \$1.2 million, or nine percent in the nine month period and were primarily affected by:

- Increased direct expenses associated with higher levels of assets from new and existing clients, net of a reduction in direct cost associated with the loss of the large distributor client mentioned above;
- Increased non-capitalized investment spending associated with the development of our Global Wealth Platform;
- Increased personnel and other operational costs necessary to deliver business outsourcing solutions;
- The write-off of previously capitalized development costs for our Global Wealth Platform in the first quarter of 2005; partially offset by
- An increase in revenues.

Other

General and administrative expenses

General and administrative expenses primarily consist of corporate overhead costs and other costs not directly attributable to a reportable business segment. The increase in these expenses was primarily due to general overhead costs and resources and associated expenses for our corporate compliance program, some of which were non-recurring and related to new regulations of the Sarbanes-Oxley Act of 2002.

Other Income

Other income on the accompanying Consolidated Statements of Operations consists of the following:

	For the Three Months Ended September 30,		Percent Change	For the Nine Months Ended September 30,		Percent Change
	2005	2004		2005	2004	
Equity in the earnings of unconsolidated affiliate	\$20,956	\$ 11,859	77%	\$53,818	\$31,542	71%
Net gain (loss) from investments	(130)	439	N/A	219	4,730	(95%)
Interest income	1,979	1,184	67%	5,739	3,021	90%
Interest expense	(369)	(497)	(26%)	(1,171)	(1,628)	(28%)
Other	941	3,689	(74%)	941	3,689	(74%)
Total other income, net	\$23,377	\$ 16,674	40%	\$59,546	\$41,354	44%

Equity in the earnings of unconsolidated affiliate on the accompanying Consolidated Statements of Operations includes our less than 50 percent ownership in the general partnership of LSV (See Note 4 to the Consolidated Financial Statements). The increase in LSV's net earnings was due to an increase in assets under management and performance fees. The increase in assets managed by LSV was due to market appreciation and sales of new business.

Net gain from investments consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Realized gain from sales of marketable securities	\$ 249	\$ 608	\$ 512	\$ 4,815
Increase (decrease) in fair value of derivative financial instruments	(379)	(169)	(293)	(193)
Other realized gains (losses)	—	—	—	108
Net gain (loss) on investments	\$ (130)	\$ 439	\$ 219	\$ 4,730

Derivative financial instruments are used to minimize the price risk associated with changes in the fair value of our seed investments in new investment management programs. These derivative financial investments did not qualify for hedge accounting under current accounting rules. As a result, changes in the fair value of these derivative financial instruments were recorded in current period earnings whereas the change in the fair value of the hedged asset will be realized upon sale in future period earnings. Management's decision to enter into derivative financial instruments that do not qualify for hedge accounting may cause volatility in quarterly earnings (See Note 1 to the Consolidated Financial Statements).

Interest income is earned based upon the amount of cash that is invested daily. Fluctuations in interest income recognized for one period in relation to another is due to changes in the average cash balance invested for the period and/or changes in interest rates. The increase in interest income in the nine month period of 2005 was primarily due to an increase in interest rates and investments of cash into higher-yielding investment vehicles.

Interest expense is directly attributable to our long-term debt and other borrowings. Interest expense for the nine months ended September 30, 2005 decreased over the comparable period mainly due to the lower principal balances of debt outstanding.

Income Taxes

Our effective tax rates were 36.20 percent and 36.25 percent for the nine months ended September 30, 2005 and 2004, respectively. For the three months ended September 30, 2005 and 2004, our effective rates were 35.80 percent and 36.25 percent, respectively. The decrease in effective rates in both periods was due to a favorable resolution of a routine audit conducted by the Internal Revenue Service on previously filed tax returns.

Liquidity and Capital Resources

	For the Nine Months Ended September 30,	
	2005	2004
Net cash provided by operating activities	\$ 142,955	\$ 119,446
Net cash used in investing activities	(73,695)	(10,468)
Net cash used in financing activities	(152,517)	(121,160)
Net decrease in cash and cash equivalents	(83,257)	(12,182)
Cash and cash equivalents, beginning of period	216,966	199,953
Cash and cash equivalents, end of period	\$ 133,709	\$ 187,771

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing. We currently have a Credit Facility that provides for borrowings of up to \$200.0 million. The availability of the Credit Facility is subject to the compliance with certain covenants set forth in the agreement. At September 30, 2005, our unused sources of liquidity consisted of unrestricted cash and cash equivalents of \$133.7 million and the full amount available through the Credit Facility of \$200.0 million.

Net cash provided by operating activities increased \$23.5 million during the first nine months in 2005 as compared to 2004 due to the increase in net income and non-cash items, which primarily consists of additional deferred taxes. The increase in deferred taxes was due to the higher amount of software development costs eligible for capitalization and currently deductible for tax purposes.

Net cash used in investing activities primarily includes the capitalization of costs incurred in developing computer software, purchases and sales of available-for-sale securities, and capital expenditures. Net cash used in investing activities increased \$63.2 million during the first nine months in 2005 as compared to the prior year period. As was the case in the past several years, we have continued to invest in the development of our new Global Wealth Platform. Many of these expenditures in prior years were related to research and design and, therefore, not eligible for capitalization. As we are currently in the application development stage of the project, a larger portion of our expenditures are for development, rather than research and design, and are eligible for capitalization under accounting rules. Capitalized software development costs were \$49.9 million in 2005 as compared to \$24.0 million in 2004.

In 2005, we had \$11.3 million in net purchases of available-for-sale securities versus \$16.1 million in net redemptions of available-for-sale securities in 2004. Purchases of available-for-sale securities in 2005 mainly comprised additional investments made into a company-sponsored mutual fund for regulatory compliance purposes. Capital expenditures in 2005 primarily include computer systems and equipment to support our ongoing operations. During the third quarter, we began construction of an additional building at our corporate headquarters. The total cost of the expansion is estimated to be at least \$15.0 million and is expected to be completed by the second half of 2006.

Net cash used in financing activities primarily includes principal payments of our debt, the repurchase of our common stock and dividend payments. Principal payments on our long-term debt were \$8.2 million in 2005 and \$11.8 million in 2004. Our long-term debt is subject to various covenants contained in each lending agreement. Currently, these covenants do not negatively affect our liquidity.

Our Board of Directors has authorized the repurchase of our common stock of up to \$1.0 billion. Through October 31, 2005, we repurchased approximately 117.7 million shares of our common stock at a cost of \$966.3 million and had \$37.1 million of authorization remaining for the purchase of our common stock under this program. Currently, there is no expiration date for our common stock repurchase program.

Cash dividends paid were \$21.3 million or \$.21 per share in the first nine months of 2005 and \$19.7 million or \$.19 per share in the first nine months of 2004. Our Board of Directors intends to declare future dividends on a semi-annual basis.

We have no off-balance sheet financing arrangements or transactions with structured finance and special purpose entities. Our off-balance sheet commitments are generally limited to future payments under non-cancelable operating leases for facilities, data processing equipment, and software and other maintenance agreements.

We believe our operating cash flow, available borrowing capacity, and existing cash and cash equivalents should provide adequate funds for continuing operations; continued investment in new products and equipment; our common stock repurchase program; expansion of our corporate campus; future dividend payments; and principal and interest payments on our long-term debt.

Forward-Looking Information and Risk Factors

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Certain information contained in this discussion is or may be considered forward-looking. Forward-looking statements relate to future operations, strategies, financial results or other developments. Forward-looking statements are based upon estimates and assumptions that involve certain risks and uncertainties, many of which are beyond our control or are subject to change. Although we believe our assumptions are reasonable, they could be inaccurate. Our actual future revenues and income could differ materially from our expected results. We have no obligation to publicly update or revise any forward-looking statements.

Among the risks and uncertainties which may affect our future operations, strategies, financial results or other developments are those risks described in our latest Annual Report on Form 10-K. These risks include the following:

- changes in capital markets that may affect our revenues and earnings;
- changes in currency exchange rates;
- changes in interest rates;
- the performance of the funds we manage;
- consolidation within our target markets, including consolidations between banks and other financial institutions;
- systems and technology risks;
- development risks associated with the introduction of new products and services to our clients and target markets;
- operational risks associated with the processing of investment transactions;
- third party approval of our investment products with advisors affiliated with independent broker-dealers or other networks;
- retention of senior management personnel; and
- the effect of extensive governmental regulation.

The Company and our clients are subject to extensive governmental regulation. Our various business activities are conducted through entities which may be registered with the Securities and Exchange Commission (SEC) as an investment adviser, a broker-dealer, a transfer agent, an investment company or with the United States Office of Thrift Supervision or state banking authorities as a trust company. Our broker-dealer is also a member of the National Association of Securities Dealers and is subject to its rules and oversight. In addition, various subsidiaries of the Company are registered with, and subject to the oversight of, regulatory authorities primarily in the United Kingdom and the Republic of Ireland. Many of our clients are subject to substantial regulation by federal and state banking, securities or insurance authorities or the Department of Labor. Compliance with existing and future regulations and responding to and complying with recent regulatory activity affecting broker-dealers, investment companies and their service providers could have a significant impact on us. We have responded and are currently responding to various regulatory examinations, inquiries and requests. One of these regulatory requests and inquiries relate to the payment by certain of our subsidiaries of expenses related to the marketing and distribution of shares of certain mutual fund clients of our fund administration and distribution business. As a result of these examinations, inquiries and requests, we are generally implementing changes and reviewing our compliance procedures and business operations. These activities resulted in an increased level of general and administrative costs that continued during the nine month period ended September 30, 2005.

We offer investment and banking products that also are subject to regulation by the federal and state securities and banking authorities, as well as non-United States regulatory authorities, where applicable. Existing or future regulations that affect these products could lead to a reduction in sales of these products. Directed brokerage payment arrangements offered by us are also subject to the SEC and other federal regulatory authorities. Changes in the regulation of directed brokerage or soft dollar payment arrangements or strategic decisions of our clients regarding these arrangements could affect sales of some services, primarily our brokerage services.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk – Our exposure to changes in interest rates primarily relates to our investment portfolio and long-term debt obligations. Our excess cash is principally invested in short-term, highly liquid financial instruments, mainly money market funds, with a substantial portion of such investments having initial maturities of three months or less. Our investment portfolio also includes some long-term fixed-income mutual funds, principally invested in federal government agency securities. We place our investments in financial instruments that meet high credit quality standards. A portion of our long-term debt is based upon a variable rate which renews every three months. While changes in interest rates could decrease interest income or increase interest expense, we do not believe that we have a material exposure to changes in interest rates. We do not undertake any specific actions to cover our exposure to interest rate risk and are not a party to any interest rate risk management transactions.

Concentration of Credit Risk – Financial instruments which potentially expose us to concentrations of credit risk consist primarily of cash equivalents, marketable securities and trade receivables. Cash deposits are maintained with financial institutions in excess of federally insured limits. Cash equivalents are principally invested in short-term money market funds or placed with major banks and high credit qualified financial institutions. Marketable securities primarily consist of those of a regulated investment company with underlying investments in federal agency mortgage-backed securities and a diversified equity investment vehicle. Concentrations of credit risk with respect to our receivables are limited due to the large number of clients and their dispersion across geographic areas. No single customer represents greater than ten percent of total accounts receivable.

Foreign Currency Risk – We transact business in the local currencies of various foreign countries, principally Canada, Ireland, the United Kingdom and South Korea. The total of all of our foreign operations accounts for approximately 11 percent of total consolidated revenues. Also, most of our foreign operations match local currency revenues with local currency costs. Due to these reasons, we do not currently hedge against foreign operations.

Price Risk – We are exposed to price risk associated with changes in the fair value of investments in marketable securities relating to the startup of new pooled investment offerings. The length of time that our funds remain invested in these new pooled investment offerings is dependent on client subscriptions. We will redeem our investments as clients subscribe to these new investment offerings. To provide protection against potential fair value changes for these investments, we have entered into various derivative financial instruments. As of September 30, 2005, we held derivative financial instruments with a notional amount of \$11.6 million with terms of less than one year. Changes in the fair value of the derivative financial instruments are recognized in current period earnings, whereas, the change in the fair value of the investment is recorded on the balance sheet in other comprehensive income. Therefore, changes in the fair value of the derivative financial instrument and changes in the fair value of the investment are not recognized through earnings in the same period. We did not enter into or hold any derivative financial instruments for trading purposes during 2005 or 2004.

Earnings include losses of \$293 thousand and \$193 thousand in the nine month periods ended September 30, 2005 and 2004, respectively, relating to changes in the fair value of derivative financial instruments. The aggregate effect of a hypothetical ten percent change in the fair value of our investments would be:

<u>Investment</u>	<u>Hypothetical Change In Value</u>
Mutual Funds	\$ 4,130
Equities	1,160
	<u>\$ 5,290</u>

In consideration of the hypothetical change in value, our derivative financial instruments related to equities would substantially offset the change in fair value of the equity securities.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On September 30, 2004, SIDCO was named as a defendant in a putative consolidated amended class action complaint (the "PBHG Complaint") filed in the United States District Court for the District of Maryland titled "Stephen Carey v. Pilgrim Baxter & Associates, LTD, et. al." The PBHG Complaint is purportedly made on behalf of all persons that purchased or held PBHG mutual funds during the period from November 1, 1998 to November 13, 2003 and relates generally to various market timing practices allegedly permitted by the PBHG Funds. The suit names as defendants some 36 persons and entities, including various persons and entities affiliated with Pilgrim Baxter & Associates, Ltd., various PBHG Funds, various alleged market timers, various alleged facilitating brokers, various clearing brokers, various banks that allegedly financed the market timing activities, various distributors/underwriters and others. The PBHG Complaint alleges that SIDCO was the named distributor/underwriter from November 1998 until July 2001 for various PBHG funds in which market timing allegedly occurred during that period. The PBHG Complaint generally alleges that the prospectus for certain PBHG funds made misstatements and omissions concerning market timing practices in PBHG funds. The PBHG Complaint alleges that SIDCO violated Sections 11 and 12(a)(2) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and Sections 34(b) and 36(a) of the Investment Company Act of 1940, and that SIDCO breached its fiduciary duties, engaged in constructive fraud and aided and abetted the breach by others of their fiduciary duties. The PBHG Complaint does not name SIDCO or any of its affiliates as a market timer, facilitating or clearing broker or financier of market timers. The PBHG Complaint seeks unspecified compensatory and punitive damages, disgorgement and restitution. While the outcome of this litigation is uncertain, SIDCO believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

In April, 2005, the Company and a subsidiary were named as defendants in a complaint (the "Vermeg Complaint") filed by Vermeg Services S.A.R.L., a Tunisian company, in the United States District Court for the Eastern District of Pennsylvania. The subsidiary of the Company terminated a software license and services contract with Vermeg in March, 2005 citing failure of the Vermeg software to meet acceptance and performance criteria under the contract. The Vermeg Complaint seeks monetary damages which it alleges arose out of the purported breach of such contract by the Company and its subsidiary as well as various other relief arising from the alleged misappropriation of Vermeg software and related information that Vermeg alleges is proprietary to Vermeg. While the outcome of this litigation is uncertain, the Company and its subsidiary believe that they have valid defenses to plaintiff's claims and intend to defend the lawsuit vigorously.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (e) Our Board of Directors has authorized the repurchase of up to \$1.0 billion of our common stock, which includes an additional authorization of \$50.0 million on September 12, 2005. Currently, there is no expiration date for our common stock repurchase program.

Information regarding the repurchase of common stock during the three months ended September 30, 2005 is as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</u>
July 1 – 31, 2005	—	—	—	\$ 28,944,000
August 1 – 31, 2005	587,000	37.69	587,000	6,818,000
September 1 – 30, 2005	537,000	36.77	537,000	37,074,000
Total	1,124,000	37.25	1,124,000	

Item 6. Exhibits.

The following is a list of exhibits filed as part of the Form 10-Q.

- 31.1 Rule 13a-15(e)/15d-15(e) Certification of Chief Executive Officer.
- 31.2 Rule 13a-15(e)/15d-15(e) Certification of Chief Financial Officer.
- 32 Section 1350 Certifications.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEI INVESTMENTS COMPANY

Date: November 7, 2005

By: _____ /s/ DENNIS J. MCGONIGLE
Dennis J. McGonigle
Chief Financial Officer

CERTIFICATIONS

I, Alfred P. West, Jr., Chairman and Chief Executive Officer of SEI Investments Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SEI Investments Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 7, 2005

/s/ ALFRED P. WEST, JR.

Alfred P. West, Jr.
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Dennis J. McGonigle, Chief Financial Officer of SEI Investments Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SEI Investments Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 7, 2005

/s/ DENNIS J. MCGONIGLE

Dennis J. McGonigle
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Alfred P. West, Jr., Chairman and Chief Executive Officer, and I, Dennis J. McGonigle, Chief Financial Officer, of SEI Investments Company, a Pennsylvania corporation (the "Company"), hereby certify that, to my knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2005

Date: November 7, 2005

/s/ ALFRED P. WEST, JR.

Alfred P. West, Jr.
Chairman and Chief Executive Officer

/s/ DENNIS J. MCGONIGLE

Dennis J. McGonigle
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.