SEI INVESTMENTS CO
Form 10-Q
November 06, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)*

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended September 30, 2006 or

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

0-10200

(Commission File Number)

SEI INVESTMENTS COMPANY

(Exact name of registrant as specified in its charter)

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

1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100

(Address of principal executive offices)

(Zip Code)

(610) 676-1000

(Registrant s telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of October 31, 2006: 98,901,667 shares of common stock, par value $.01 per share.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

SEI Investments Company

Consolidated Balance Sheets

(unaudited)

(In thousands)

	September 30, 2006	December 31, 2005
Assets		
Current Assets:		
Cash and cash equivalents	$ 231,281	$ 130,128
Restricted cash	10,250	10,250
Receivables from regulated investment companies	31,744	30,558
Receivables, net of allowance for doubtful accounts of $2,992 and $1,520 (Note 4)	194,138	97,987
Securities owned	16,329	19,709
Deferred income taxes	6,322	7,318
Prepaid expenses and other current assets	12,736	10,026
Total Current Assets	502,800	305,976
Property and Equipment, net of accumulated depreciation and amortization of $108,770 and $109,208 (Note 4)	124,700	114,505
Capitalized Software, net of accumulated amortization of $24,325 and $21,667	161,533	116,670
Investments Available for Sale	71,649	54,632
Investments Held to Maturity	4,680	
Investment in Unconsolidated Affiliate		51,941
Goodwill	95,062	
Other Intangible Asset, net of accumulated amortization of $873	2,948	
Other Assets	14,513	13,423
Total Assets	$ 977,885	$ 657,147

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

SEI Investments Company

Consolidated Balance Sheets

(unaudited)

(In thousands, except par value)

	September 30, 2006	December 31, 2005
Liabilities and Shareholders Equity		
Current Liabilities:		
Current portion of long-term debt	$ 14,000	$ 5,389
Accounts payable	8,249	4,954
Payable to regulated investment companies		204
Accrued liabilities (Note 4)	147,732	147,426
Deferred gain		267
Deferred revenue	262	287
Total Current Liabilities	170,243	158,527
Long-term Debt	70,474	9,000
Deferred Income Taxes	57,773	58,989
Minority Interest	104,278	8,943
Commitments and Contingencies (Note 10)		
Shareholders Equity:		
Common stock, $.01 par value, 750,000 shares authorized; 98,815 and 98,580 shares issued and outstanding	988	986
Capital in excess of par value	333,838	268,608
Retained earnings	233,146	148,127
Accumulated other comprehensive income, net	7,145	3,967
Total Shareholders Equity	575,117	421,688
Total Liabilities and Shareholders Equity	$ 977,885	$ 657,147

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,	
	2006	**2005**
Revenues	$ 298,084	$ 193,659
Expenses:		
Operating and development	112,396	99,633
Sales and marketing	47,351	32,514
General and administrative	9,772	8,212
Income from operations	128,565	53,300
Equity in the earnings of unconsolidated affiliate		20,956
Net loss from investments	(2,226)	(130)
Interest income	3,397	1,979
Interest expense	(1,475)	(369)
Minority interest	(39,537)	
Other income		941
Income before income taxes	88,724	76,677
Income taxes	28,175	27,481
Net income	60,549	49,196
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	333	53
Unrealized holding gain (loss) on investments:		
Unrealized holding gains (losses) during the period net of income tax (expense) benefit of $(324) and $182	675	(325)
Less: reclassification adjustment for losses realized in net income, net of income tax benefit of $761 and $43	1,632	2,307	86	(239)
Other comprehensive income (loss)	2,640	(186)
Comprehensive income	$ 63,189	$ 49,010
Basic earnings per common share	$ .61	$ .49
Diluted earnings per common share	$ .60	$ .48

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,			
	2006		2005	
Revenues	$ 860,235		$ 569,420	
Expenses:				
Operating and development	332,038		291,140	
Sales and marketing	132,392		97,621	
General and administrative	28,621		25,331	
Income from operations	367,184		155,328	
Equity in the earnings of unconsolidated affiliate			53,818	
Net (loss) gain from investments	(1,866)		219	
Interest income	9,149		5,739	
Interest expense	(4,078)		(1,171)	
Minority interest	(111,275)			
Other income	1,588		941	
Income before income taxes	260,702		214,874	
Income taxes	87,336		77,785	
Net income	173,366		137,089	
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	2,888		(1,263)	
Unrealized holding gain (loss) on investments:				
Unrealized holding losses during the period net of income tax benefit of $164 and $183	(96)		(328)	
Less: reclassification adjustment for losses (gains) realized in net income, net of income tax benefit (expense) of $187 and $(80)	386	290	(140)	(468)
Other comprehensive income (loss)		3,178		(1,731)
Comprehensive income		$ 176,544		$ 135,358
Basic earnings per common share		$ 1.76		$ 1.36
Diluted earnings per common share		$ 1.71		$ 1.32
Dividends declared per common share		$ .12		$ .11

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,	
	2006	**2005**
Cash flows from operating activities:		
Net income	$ 173,366	$ 137,089
Adjustments to reconcile net income to net cash provided by operating activities	78,534	5,866
Net cash provided by operating activities	251,900	142,955
Cash flows from investing activities:		
Additions to property and equipment	(22,523)	(12,681)
Additions to capitalized software	(53,861)	(49,943)
Purchase of marketable securities	(44,293)	(16,186)
Sale of marketable securities	27,061	4,871
Cash received from consolidation of LSV	5,268	
Other	(408)	244
Net cash used in investing activities	(88,756)	(73,695)
Cash flows from financing activities:		
Payment on long-term debt	(12,715)	(8,167)
Purchase and retirement of common stock	(81,581)	(129,032)
Proceeds from issuance of common stock	30,155	5,965
Tax benefit on stock options	24,854	
Payment of dividends	(22,704)	(21,283)
Net cash used in financing activities	(61,991)	(152,517)
Net increase (decrease) in cash and cash equivalents	101,153	(83,257)
Cash and cash equivalents, beginning of period	130,128	216,966
Cash and cash equivalents, end of period	$ 231,281	$ 133,709

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 investment 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 investment 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.

Effective January 1, 2006, the Company reorganized its business segments to better align new and existing solutions and corresponding processes. As part of this reorganization, the Company will consolidate certain business activities into new, globally-managed business segments. Additional information pertaining to the Company s new business segments is included in Note 11.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2005 except for those discussed below. The interim financial information is unaudited but reflects all adjustments which are, in the opinion of management, necessary to present fairly the financial position of the Company as of September 30, 2006, the results of operations for the three and nine months ended September 30, 2006 and 2005, and cash flows for the nine month periods ended September 30, 2006 and 2005. These interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), Share-Based Payment, which requires stock-based compensation cost to be recognized in the Company s consolidated financial statements. Additionally, the Company is now required to consolidate the assets, liabilities and operations of LSV Asset Management (LSV), a general partnership, and LSV Employee Group LLC (LSV Employee Group), a Delaware limited liability company formed in January 2006, effective in the first quarter 2006.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries and entities in which it holds a controlling financial interest. The Company determines whether it has a controlling financial interest either by its decision-making ability through voting interests in accordance with Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries, or by the extent of the Company s participation in the economic risks and rewards of the entity through variable interests pursuant to the revised interpretation of Financial Accounting Standards Board Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. The Company provides for minority interests in consolidated entities for which the Company s controlling financial interest is less than 100 percent. The Company s principal subsidiaries are SEI Investments Distribution Co. (SIDCO), SEI Investments Management Corporation (SIMC), and SEI Private Trust Company (SPTC). All intercompany accounts and transactions have been eliminated.

In January 2006, the Company entered into a Guaranty and Collateral Agreement (the Guaranty Agreement) to provide an unsecured loan guaranty to LSV Employee Group, which is owned by several current employees of LSV. The purpose of the agreement was to assist LSV Employee Group in their purchase of an aggregate eight percent interest in LSV from two existing partners of LSV. The Company has determined that under FIN 46, LSV Employee Group meets the definition of a variable interest entity and that the Company is the primary beneficiary. The Company has also determined that it has a controlling financial interest in LSV due to its direct 43 percent ownership in LSV and its guaranty of LSV Employee Group s debt. As a result, the Company is required to consolidate the assets, liabilities and operations of LSV and LSV Employee Group beginning in 2006. The amount of ownership of the other existing partners is included in minority interest. Prior to 2006, the Company accounted for LSV under the equity method of accounting. The Company s share of net assets in LSV was reported in Investment in unconsolidated affiliate on the Consolidated Balance Sheets and its proportionate share in the earnings of LSV was reported in Equity in the earnings of unconsolidated affiliate as a component of other income on the accompanying Consolidated Statement of Operations. The presentation of LSV in the Consolidated Financial Statements has changed due to this transaction; however, the Company s proportionate share in the net assets and earnings of LSV was unaffected and remained at approximately 43 percent. The Company does not have any ownership interest in LSV Employee Group (See Note 2).

Management s Use of Estimates

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

Revenue Recognition

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

Cash and Cash Equivalents

The Company considers investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents includes $69,188 and $55,237 at September 30, 2006 and December 31, 2005, respectively, invested in money market and short-term mutual funds sponsored by the Company. Cash and cash equivalents at September 30, 2006 includes $64,391 from LSV due to the requirement to consolidate the accounts of LSV.

Restricted Cash

Restricted cash at September 30, 2006 and December 31, 2005 includes $10,000 segregated in special reserve accounts for the benefit of SIDCO customers in accordance with certain rules established by the Securities and Exchange Commission (SEC) for broker-dealers and $250 segregated for regulatory purposes related to trade-execution services conducted by our subsidiary located in the United Kingdom.

Allowances for Doubtful Accounts

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

Concentration of Credit Risk

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

Property and Equipment

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

Marketable Securities

The Company s non-broker-dealer subsidiaries account for investments in marketable securities pursuant to Statement of Financial Accounting Standards No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation when necessary. Currently, the Company s non-broker-dealer subsidiaries hold marketable securities classified as available for sale and held to maturity. 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. Securities classified as held to maturity are reported at amortized cost. The Company s broker-dealer subsidiary accounts for investments in marketable securities pursuant to applicable specialized accounting practices which require the investments to be reported at fair value with changes in fair value recognized in current period earnings.

The Company evaluates the realizable value of its marketable securities on a quarterly basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. Factors considered in determining other-than-temporary declines in value include the duration and extent to which the fair value has been less than the carrying value, the ability of the investment to recover to its original cost, and the Company s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. During the nine month period ended September 30, 2006, the Company recorded an impairment charge of $1,979 related to an other-than-temporary decline in fair value of a mutual fund investment. No charges related to an other-than-temporary decline were recorded in the nine month period ended September 30, 2005 (See Note 5).

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, 2006 and December 31, 2005, hedge accounting does not apply to any of the Company s derivatives.

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

The Company holds equity derivatives with a notional amount of $9,911 and an expected maturity date in 2007. Additionally, LSV Employee Group entered into two interest rate swap agreements to convert its floating rate long-term debt to fixed rate debt. These swaps have a total notional value of

$55,479 and expected maturity dates of March 2009 and January 2011. The net effect from the interest rate swaps on the Company s earnings was minimal. The Company recognized net losses of $414 and $379 in the three months ended September 30, 2006 and 2005, respectively, from changes in the fair value of derivative instruments. In the nine months ended September 30, 2006 and 2005, the Company recognized net losses of $496 and $293, respectively, from derivative instruments. These losses are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

Capitalized Software

The Company accounts for software development costs in accordance with the guidance established in Statement of Position

98-1 (SOP 98-1) Accounting for the Cost of Computer Software Developed or Obtained for Internal Use, for development costs associated with software products to be provided in a hosting environment. As required by SOP 98-1, the Company capitalizes the costs incurred during the application development stage, which includes direct external and internal costs to design the software configuration and interfaces, coding, installation, and testing. Costs incurred during the preliminary project along with post-implementation stages are expensed as incurred. Costs incurred to maintain existing product offerings are expensed as incurred. The capitalization and ongoing assessment of recoverability of software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life. The Company capitalized $53,861 and $49,943 of software development costs in accordance with SOP 98-1 during the nine months ended September 30, 2006 and 2005, respectively.

Amortization of capitalized software development costs begins when the product is placed into service. During the nine month period ended September 30, 2006, the Company placed into service approximately $15,113 of previously capitalized software development costs. Capitalized software development costs are amortized on a product-by-product basis using the straight-line method over the estimated economic life of the product or enhancement, which is primarily two to ten years, with a weighted average remaining life of approximately 7.6 years. Amortization expense was $3,304 and $1,756 during the nine months ended September 30, 2006 and 2005, respectively.

In the second quarter of 2006, the Company determined that the front-end component of the SEI Advisor Desktop did not fully satisfy the expected functionality requirements and would require additional investment. Management decided to discontinue any further development work for this front-end component and wrote-off $3,429 of previously capitalized software development costs. Additionally, $625 and $1,640 of previously capitalized software development costs related to other discontinued projects associated with the Global Wealth Platform were written-off in the first and second quarters of 2006, respectively. In 2005, the Company wrote-off $3,587 of previously capitalized software development costs, which included $1,922 of unpaid liabilities to the vendor that was directly associated with the amount that was capitalized. The Company recorded a net charge of $1,665 during the nine months ended September 30, 2005.

Goodwill and Other Intangible Asset

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

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

Income Taxes

The Company applies the asset and liability approach to account for income taxes pursuant to Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and

liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

Foreign Currency Translation

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

Fair Value of Financial Instruments

The book value of current assets and current liabilities is considered to be representative of their fair value because of their short maturities. 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.

Stock-Based Compensation

In the first quarter of 2006, the Company adopted the provisions of SFAS 123(R). SFAS 123(R) replaced Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Under the fair value recognition provisions of SFAS 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123(R) apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro-forma disclosures (See Note 8).

Earnings per Share

The Company calculates earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share. Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is computed by dividing net income available to common shareholders by the combination of the weighted average number of common shares outstanding and the dilutive potential common shares, such as stock options, outstanding during the period. The calculations of basic and diluted earnings per share for the three months ended September 30, 2006 and 2005 are:

	For the Three Month Period Ended September 30, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 60,549	98,572	$ .61
Dilutive effect of stock options		3,058	
Diluted earnings per common share	$ 60,549	101,630	$ .60

	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

Employee stock options to purchase 3,053,500 and 4,598,000 shares of common stock, with an average exercise price of $42.03 and $44.53, were outstanding during the three month periods ended September 30, 2006 and 2005, respectively, but not included in the computation of diluted earnings per common share because the effect on diluted earnings per common share would have been anti-dilutive.

The calculations of basic and diluted earnings per share for the nine months ended September 30, 2006 and 2005 are:

	For the Nine Month Period Ended September 30, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 173,366	98,609	$ 1.76
Dilutive effect of stock options		2,792	
Diluted earnings per common share	$ 173,366	101,401	$ 1.71

	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

Employee stock options to purchase 3,053,500 and 4,598,000 shares of common stock, with an average exercise price of $42.03 and $44.53, were outstanding during the nine month periods ended September 30, 2006 and 2005, respectively, but not included in the computation of diluted earnings per common share because the effect on diluted earnings per common share would have been anti-dilutive.

Comprehensive Income

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

	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Investments	Accumulated Other Comprehensive Gains
Beginning balance (Dec. 31, 2005)	$ 3,675	$ 292	$ 3,967
Current period change	2,888	290	3,178
Ending balance (Sept. 30, 2006)	$ 6,563	$ 582	$ 7,145

Statements of Cash Flows

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

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

	2006	2005
Net income	$ 173,366	$ 137,089
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,432	13,328
Distribution from unconsolidated affiliate	16,940	
Undistributed equity in the earnings of unconsolidated affiliate		(12,448)
Undistributed earnings of minority interests	111,275	
Payment to partners of LSV	(57,737)	
Tax benefit on stock options exercised		4,189
Stock-based compensation	15,302	
Gain on partial sale of unconsolidated affiliate	(267)	(941)
Provision for losses on receivables	1,352	(331)
Deferred income tax expense	(243)	19,312
Net realized losses (gains) on investments	1,866	(219)
Write-off of capitalized software	5,694	3,587
Other	(1,403)	(2,480)
Change in current asset and liabilities		
Decrease (increase) in		
Restricted cash		4,383
Receivables from regulated investment companies	(1,186)	(1,300)
Receivables	(33,533)	(8,446)
Prepaid expenses and other current assets	(2,575)	610
Increase (decrease) in		
Accounts payable	3,293	(1,197)
Payable to regulated investment companies	(204)	(4,273)
Payable to customer		(235)
Accrued expenses	3,553	(5,669)
Deferred revenue	(25)	(2,004)
Total adjustments	78,534	5,866
Net cash provided by operating activities	$ 251,900	$ 142,955

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

	2006	2005
Interest paid	$ 3,092	$ 1,496
Interest and dividends received	8,802	5,589
Income taxes paid	56,282	46,828

The following non-cash activities are excluded from the Consolidated Statements of Cash Flows: LSV Employee Group purchased an aggregate eight percent interest in LSV from two existing partners for a total purchase price of $92,000. LSV Employee Group contributed $9,200 and borrowed the remaining $82,800 (See Note 2).

New Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments. SFAS 155 amends Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities and Statement of Financial Accounting Standards No. 140 (SFAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The Company does not expect the adoption of SFAS 155 to have a significant impact on the Company s consolidated financial position, results of operations or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes which clarifies FASB Statement No. 109, Accounting for Income Taxes. FIN 48 sets forth a specific recognition threshold and measurement method for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. It also provides guidance on classification, interest and penalties, accounting for interim periods, disclosure and transition. FIN 48 amends FASB Statement No. 5, Accounting for Contingencies by indicating that it no longer applies to accounting for income taxes. The pronouncement is effective for fiscal years beginning after December 15, 2006, thus for the Company s first quarter of 2007. The Company expects to have completed an analysis as to the impact of this statement on its financial statements in the fourth quarter 2006.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year s financial statements are materially misstated. SAB 108 becomes effective for all financial statements issued for fiscal years beginning after November 15, 2006. The Company does not expect the adoption of SAB 108 to have a material impact on its financial statements.

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

Reclassifications

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

Note 2. Consolidation of LSV and LSV Employee Group

The Company has an investment in the general partnership LSV, a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies. LSV is currently an investment sub-adviser for a number of Company-sponsored mutual funds. The Company s total partnership interest in LSV was approximately 43 percent during 2005 and 2006. LSV Employee Group is owned by several current employees of LSV and was formed in January 2006 for the sole purpose of owning a partnership interest in LSV. The Company does not own any interest in LSV Employee Group.

In January 2006, the Company entered into a Guaranty Agreement with LSV Employee Group, LaSalle Bank National Association as administrative agent (the Agent), and certain other lenders. The Company entered into the Guaranty Agreement in order to facilitate the acquisition of certain partnership interests of LSV by LSV Employee Group. The Company and other investors are partners of LSV. Two partners of LSV, excluding the Company, sold in the aggregate an eight

percent interest in LSV to LSV Employee Group. In order to finance a portion of the purchase price for such interests in LSV, LSV Employee Group obtained financing from the Agent and certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement. The principal amount of the term loan was $82,800 (See Note 7).

Pursuant to the terms and conditions of the Guaranty Agreement, the Company has agreed to provide an unsecured guaranty to the lenders of all obligations of LSV Employee Group under the Credit Agreement in the event of default by LSV Employee Group. In the event of default by LSV Employee Group, the lenders have the right to seek payment from the Company of all obligations of LSV Employee Group under the Credit Agreement (see Note 10).

Under FIN 46, LSV Employee Group meets the definition of a variable interest entity. As a result of the Guaranty Agreement, the Company determined that it was the primary beneficiary of LSV Employee Group. As a result of this transaction, the Company now has a controlling financial interest in LSV through its direct ownership of LSV and guaranty of LSV Employee Group s debt. The Company is required to consolidate the assets, liabilities and operations of LSV and LSV Employee Group in its Consolidated Financial Statements beginning in January 2006. The Company s percentage of direct ownership in LSV was unchanged (approximately 43 percent) as a result of this transaction. The amount of ownership of the other existing partners (approximately 57 percent) of LSV is included in Minority interest. The Company does not have any ownership interest in LSV Employee Group. Prior to 2006, the Company accounted for LSV using the equity method of accounting. The Company s share of net assets in LSV was reported in Investment in unconsolidated affiliate on the Consolidated Balance Sheets. The Company s proportionate share in the earnings of LSV was recorded in Equity in the earnings of unconsolidated affiliate as a component of other income on the accompanying Consolidated Statement of Operations.

The following table contains the condensed statements of operations of LSV for the three and nine months ended September 30, 2005:

	For the Three Month Period Ended September 30, 2005	For the Nine Month Period Ended September 30, 2005
Revenues	$ 55,118	$ 141,663
Net income	$ 49,075	$ 126,152

The following table contains the condensed balance sheet of LSV as of December 31, 2005:

	December 31, 2005
Cash and cash equivalents	$ 45,698
Accounts receivable	65,312
Other current assets	135
Non-current assets	504
Total assets	$ 111,649
Current liabilities	$ 8,955
Partners capital	102,694
Total liabilities and partners capital	$ 111,649

The pro-forma financial information for the three and nine months ended September 30, 2005 combines the historical results of the Company and LSV as though the companies had been combined as of the beginning of January 1, 2005. Net income and earnings per share were unchanged due to this transaction but are presented for the purpose of clarification.

	For the Three Month Period Ended September 30, 2005	For the Nine Month Period Ended September 30, 2005
Revenues	$ 248,777	$ 711,083
Net income	$ 49,196	$ 137,089
Basic earnings per share	$ .49	$ 1.36
Diluted earnings per share	$ .48	$ 1.32

Note 3. Goodwill and Other Intangible Asset

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

In January 2006, LSV Employee Group purchased an equity investment in LSV for $92,000. In accordance with the terms of the Assignment and Purchase Agreement (the Purchase Agreement), LSV Employee Group received an eight percent interest in the earnings and distributions of LSV from the date of the Purchase Agreement and did not acquire any right to any of the sellers remaining undistributed operating income of LSV. Therefore, the entire purchase price was considered goodwill and there was no purchase price allocation. Goodwill is not amortized but instead will be tested for impairment at least annually.

The Company identified an intangible asset related to customer contracts that met the contractual-legal criterion for recognition apart from goodwill. The fair value of the intangible asset was determined to be $3,821 with a definite life of eight and a half years. The identified intangible asset is amortized on a straight-line basis. The Company recognized $327 of amortization expense during the nine months ended September 30, 2006 and 2005. Prior to 2006, the goodwill and intangible assets were considered embedded within its investment in LSV and reflected as a component of Investment in unconsolidated affiliate on the accompanying Consolidated Balance Sheets.

	September 30, 2006	December 31, 2005
Intangible asset, at cost	$ 3,821	$ 3,821
Accumulated amortization	(873)	(546)
Net book value	$ 2,948	$ 3,275

Note 4. Composition of Certain Financial Statement Captions

Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2006	December 31, 2005
Trade receivables	$ 46,899	$ 29,895
Fees earned, not billed	143,601	65,910
Other receivables	6,630	3,702
	197,130	99,507
Less: Allowance for doubtful accounts	(2,992)	(1,520)
	$ 194,138	$ 97,987

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

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

At September 30, 2006, Trade receivables include $12,901 and Fees earned, not billed include $67,128 of amounts owed to LSV from its clients resulting from the requirement to consolidate the accounts of LSV beginning in 2006.

Property and Equipment

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

	September 30, 2006	December 31, 2005
Equipment	$ 55,907	$ 63,251
Buildings	98,615	98,235
Land	9,510	9,510
Purchased software	37,618	30,251
Furniture and fixtures	17,966	16,820
Leasehold improvements	4,838	2,961
Construction in progress	9,016	2,685
	233,470	223,713
Less: Accumulated depreciation and amortization	(108,770)	(109,208)
Property and Equipment, net	$ 124,700	$ 114,505

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2006	December 31, 2005
Accrued income taxes	$ 17,030	$ 11,487
Accrued compensation	52,042	53,157
Accrued consulting	11,649	8,719
Accrued sub-advisor and investment officer fees	10,977	10,111
Other accrued liabilities	56,034	63,952
Total accrued liabilities	$ 147,732	$ 147,426

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

Note 5. Marketable Securities

Investments Available for Sale

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

	As of September 30, 2006			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Company-sponsored mutual funds	$ 61,596	$ 354	$	$ 61,950
Non-company-sponsored mutual funds	202			202
Equity securities	9,086	411		9,497
	$ 70,884	$ 765	$	$ 71,649

	As of December 31, 2005			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Company-sponsored mutual funds	$ 42,890	$	$ (1,274)	$ 41,616
Non-company-sponsored mutual funds	2,324	9		2,333
Equity securities	8,966	1,717		10,683
	$ 54,180	$ 1,726	$ (1,274)	$ 54,632

The net unrealized holding gains at September 30, 2006 were $582 (net of income tax expense of $183). Net unrealized holding gains at December 31, 2005 were $292 (net of income tax expense of $160). These gains are reported as a separate component of Accumulated other comprehensive gains on the accompanying Consolidated Balance Sheets.

During the three months ended September 30, 2005, the Company recognized gross realized gains of $249 from available-for-sale securities. There were no realized gains or losses from available-for-sale securities during the three months ended September 30, 2006. During the nine months ended September 30, 2006 and 2005, the Company recognized gross realized gains of $1,901 and $512, respectively, from available-for-sale securities. These gains and losses are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations. There were no realized losses recognized during the nine months ended September 30, 2005.

The Company maintains an investment in a Company-sponsored mutual fund held in order to satisfy applicable regulatory requirements of SPTC that had been in an unrealized loss position longer than one year during 2006. During the three months ended September 30, 2006, the Company wrote down this investment and recorded an impairment charge of $1,979 related to other-than-temporary declines in fair value. This charge is included in Net loss from investments on the accompanying Consolidated Statements of Operations. The new cost basis of the investment at September 30, 2006, inclusive of the impairment charge, was $41,596 with a fair value of $41,730 and a gross unrealized gain of $134.

Held-to-Maturity Securities

At September 30, 2006, the Company had investments in federal agency mortgage-backed securities. The Company acquired these securities in order to satisfy certain regulatory requirements associated with the operations of SPTC. The securities had a cost basis of $4,680 and are reported as Investments held to maturity on the accompanying Consolidated Balance Sheets. The recorded value of these securities approximates their fair value.

Securities Owned

At September 30, 2006 and December 31, 2005, the Company s broker-dealer subsidiary had investments in U.S. Treasury securities which are recognized as Securities owned on the accompanying Consolidated Balance Sheets. Due to specialized accounting practices applicable to investments by broker-dealers, the securities are reported at fair value and changes in fair value are recorded in current period earnings. The securities had a fair value of $16,329 and $19,709 at September 30, 2006 and December 31, 2005, respectively. The Company recognized a change in fair value of $250 related to the securities during the nine months ended September 30, 2006. This change is reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations

Note 6. Lines of Credit

On January 14, 2003, the Company s Canadian subsidiary entered into a credit facility agreement (the Canadian Credit Facility) for the purpose of facilitating the settlement of mutual fund transactions. The Canadian Credit Facility became effective immediately and has no stated expiration date. The amount of the facility is generally limited to $2,000 Canadian dollars or the equivalent amount in U.S. dollars. The facility, when utilized, accrues interest at the effective rate of interest announced by the lending institution, which is generally in accordance with rates on Canadian dollar commercial loans made in Canada. The Canadian Credit Facility does not contain any covenants which restrict the liquidity or capital resources of the Company. The Company had no borrowings under the Canadian Credit Facility and was in compliance with all covenants during the nine months ended September 30, 2006.

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, 2006. During the nine month period ended September 30, 2006, the Company had no borrowings under the Credit Facility.

Note 7. Long-term Debt

In February 1997, the Company signed a Note Purchase Agreement authorizing the issuance and sale of $20,000 of 7.20 percent Senior Notes, Series A, and $15,000 of 7.27 percent Senior Notes, Series B (collectively, the Notes), in a private offering with certain financial institutions. The 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 2006. The remaining unpaid principal balance of the Notes at September 30, 2006 was $9,000, of which $4,000 is classified as current.

In June 2001, the Company entered into a $25,000 Term Loan Agreement (the Agreement) with a separate lending institution and borrowed the full amount in August 2001. The Company made its final payment of $1,389 in March 2006.

The Company was in compliance with all covenants associated with its long-term debt during the nine month periods ended September 30, 2006 and 2005.

In January 2006, LSV Employee Group purchased an eight percent interest in the partnership LSV. In order to finance a portion of the purchase price, LSV Employee Group obtained financing from LaSalle Bank National Association and certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement. The principal amount of the term loan is $82,800. The term loan may be divided into tranches that will bear interest at either (a) LIBOR plus 0.875 percent, or (b) at a base rate, defined as the greater of (i) the Federal Funds Rate plus 0.5 percent or (ii) the prime rate for LaSalle Bank National Association. LSV Employee Group may designate which rate of interest will be applied for each tranche. The principal amount and interest of the term loan are to be paid in quarterly installments. The total outstanding principal balance of the term loan must be paid in full by January 2011. LSV Employee Group may prepay the term loan in whole or in part at any time without penalty. As of September 30, 2006, the remaining unpaid principal balance of the term loan was $75,474, of which $10,000 is classified as current and presented in Current portion of long-term debt on the accompanying Consolidated Balance Sheets. The remaining $65,474 is presented in Long-term debt on the accompanying Consolidated Balance Sheets. LSV Employee Group made principal payments totaling $11,162 during 2006, which includes a payment of $3,836 made in October 2006. The Company entered in a Guaranty and Collateral Agreement with LSV Employee Group to assist in acquiring financing of the purchase price but currently has no obligation of payment relating to the term loan of LSV Employee Group (See Note 10).

Note 8. Stock-Based Compensation

The Company currently has one active equity compensation plan, the 1998 Equity Compensation Plan (the 1998 Plan), pursuant to which grants of stock may be made to employees, consultants and directors of the Company. The 1998 Plan provides for the grant of incentive stock options and non-qualified stock options, restricted stock, stock appreciation rights, and performance units. The Company s Board of Directors has reserved an aggregate 20,222,000 shares for grant under the 1998 Plan and has only granted non-qualified stock options. The non-qualified stock options are granted with an exercise price equal to the fair market value of the Company s common stock on the date of grant, become exercisable ratably upon attainment of specific diluted earnings per share targets or in their entirety after seven years from the date of grant and expire ten years from the date of grant. The Company maintains an on-going annual grant program under which all employees are eligible for consideration.

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

Beginning with the first quarter of 2006, the Company adopted SFAS 123(R). The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock options on the date of grant using an option-pricing model is affected by the price of the Company s common stock as well as other variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock exercise behaviors, risk-free interest rate and expected dividends. The Company uses historical data to estimate the variables used in the option-pricing model. SFAS 123(R) also requires the Company to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest.
Stock-based compensation is amortized over the requisite service periods of the awards, which are generally the vesting periods. The amount of stock-based compensation expense that is recognized in a given period is dependent upon management s estimate of when the diluted earnings per share targets are expected to be achieved. If this estimate proves to be inaccurate, the remaining amount of stock-based compensation expense could be accelerated or spread out over a longer period.

The weighted average fair value of the Company s stock options granted during 2006 and 2005 were $22.45 and 16.67, respectively, using the following assumptions:

	2006	2005
Expected term (in years)	7.80	7.00
Expected volatility	40.77%	43.12%
Expected dividend yield	0.50%	0.58%
Risk-free interest rate	4.93%	4.17%

The Company recognized $7,220 ($5,214, or $.05 basic and diluted earnings per share, net of deferred tax benefit of $2,006) and $15,302 ($10,347, or $.10 basic and diluted earnings per share, net of deferred tax benefit of $4,955) of stock-based compensation expense in its Consolidated Financial Statements in the three and nine month periods ended September 30, 2006, respectively. As of September 30, 2006, there was approximately $50,317 of unrecognized compensation cost remaining, adjusted for estimated forfeitures, related to unvested employee stock options. The Company estimates that compensation cost will be recognized according to the following schedule:

Period	Stock-Based Compensation Expense
Remainder of 2006	$ 7,123
2007	10,354
2008	10,010
2009	9,685
2010	8,050
2011	2,612
2012	2,438
2013	45
	$ 50,317

During the three month period ended September 30, 2006, the Company accelerated the recognition of $3,078 in stock-based compensation expense due to a change in management s estimate of when certain vesting targets will be achieved.

Prior to the adoption of SFAS 123(R), all tax benefits for deductions resulting from the exercise of stock options were presented as operating cash flows on the Consolidated Statement of Cash Flows. SFAS 123(R) requires the benefits of tax deductions to be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total cash flow will remain unchanged from what would have been reported under prior accounting rules.

The following table presents the pro-forma effects on net income and earnings per common share for the three and nine month periods ended September 30, 2005 if the Company had recognized compensation expense relating to its employee stock options under the provision of SFAS 123:

	For the Three Month Period Ended September 30, 2005	For the Nine Month Period Ended September 30, 2005
Net Income:		
As reported	$ 49,196	$ 137,089
Deduct: Total stock-based employee expense determined under the fair value based method for all awards, net of related tax effects	(4,814)	(14,245)
Pro forma	$ 44,382	$ 122,844
Basic earnings per common share		
As reported	$ .49	$ 1.36
Pro forma	$ .44	$ 1.22
Diluted earnings per common share		
As reported	$ .48	$ 1.32
Pro forma	$ .43	$ 1.19

The following table presents certain information relating to the Company s stock option plans for the nine months ended September 30, 2006:

	Number of Shares	Weighted Avg. Price
Balance as of December 31, 2005	16,278,000	$ 29.92
Granted	47,000	48.48
Exercised	(2,042,000)	13.87
Expired or cancelled	(619,000)	35.90
Balance as of September 30, 2006	13,664,000	$ 32.11
Exercisable as of September 30, 2006	7,186,000	$ 31.58
Available for future grant as of September 30, 2006	4,667,000	

The Company issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the first nine months of 2006 was $65,926. The aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2006 was $329,023 and $176,849, respectively. The total intrinsic value for options outstanding and options exercisable is calculated as the difference between the market value of the Company s common stock as of September 30, 2006 and the exercise price of the shares. The market value of the Company s common stock as of September 29, 2006 was $56.19 as reported by the Nasdaq exchange.

The following table summarizes information relating to all options outstanding at September 30, 2006:

	Options Outstanding at September 30, 2006		Options Exercisable at September 30, 2006		
Range of Exercise Prices (Per Share)	Number Of Shares	Weighted Average Exercise Price (Per Share)	Number Of Shares	Weighted Average Exercise Price (Per Share)	Weighted Average Remaining Contractual Life (Years)
$3.25 - $15.69	1,905,000	$ 11.40	1,905,000	$ 11.40	2.6
$16.21 - $29.42	3,126,000	25.60	1,203,000	19.60	5.9
$29.56 - $38.25	2,407,000	29.92	30,000	36.52	8.0
$38.55 - $42.86	3,209,000	40.00	1,085,000	42.83	8.7
$43.09 - $54.06	3,017,000	45.31	2,963,000	45.26	7.7
	13,664,000	32.11	7,186,000	31.58	6.9

Note 9. Common Stock Buyback

The Company s Board of Directors has authorized the repurchase of the Company s common stock on the open market or through private transactions of up to an aggregate of $1,103,365. Through September 30, 2006, a total of 120,444,000 shares at an aggregate cost of $1,082,958 have been purchased and retired. The Company purchased 1,857,000 shares at a total cost of $81,581 during the nine months ended September 30, 2006.

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

Note 10. Commitments and Contingencies

Guarantees and Indemnifications

In January 2006, the Company entered into a Guaranty Agreement with LSV Employee Group (the Borrower), LaSalle Bank National Association as administrative agent (the Agent), and certain other lenders party thereto. The Company entered into the Guaranty Agreement in order to facilitate the Borrower s acquisition of certain partnership interest of LSV.

Pursuant to the terms and conditions of the Guaranty Agreement, the Company has agreed to provide an unsecured guaranty to the lenders of all obligations of LSV Employee Group under the Credit Agreement. The obligations of the Company under the Guaranty Agreement are triggered if an event of default occurs under the Credit Agreement, which includes (a) non-payment of the loan by LSV Employee Group, (b) non-payment by LSV Employee Group or LSV of other LSV Employee Group debt or LSV debt, (c) certain events of bankruptcy or insolvency with respect to LSV Employee Group of LSV, and (d) a change of control (which is defined as including Josef Lakonishok, one of the principal partners of LSV, ceasing to own and control, directly or indirectly, at least 15.5 percent of the outstanding capital securities of LSV).

Upon the occurrence of an event of default, in addition to the rights of the lenders to seek repayment from LSV Employee Group and exercise all rights as secured creditors against LSV Employee Group, the lenders have the right to seek payment from the Company of LSV Employee Group s obligations under the Credit Agreement. As recourse for such payment, the Company will be subrogated to the rights of the lenders under the Credit Agreement and the Guaranty Agreement, including the security interest in the pledged interests transferred to LSV Employee Group.

Legal Proceedings

In the normal course of business, the Company is party to various claims and legal proceedings. On September 30, 2004, SIDCO was named as a defendant in a putative consolidated amended class action complaint filed in the United States District Court for the District of Maryland titled Stephen Carey v. Pilgrim Baxter & Associates, LTD, et. al. This complaint was purportedly made on behalf of all persons that purchased or held PBHG mutual funds during the period from November 1, 1998 to November 13, 2003 and related generally to various market timing practices allegedly permitted by the PBHG Funds. The complaint alleged that SIDCO was the named distributor/underwriter from November 1998 until July 2001 for various PBHG funds in which market timing allegedly occurred during that period. In 2006, the plaintiffs submitted a proposed form of order dismissing SIDCO from the action, but the Court has not yet acted on the proposed order. The Company had not made any provision relating to this legal proceeding.

Note 11. Business Segment Information

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

The Company reorganized its business segments in 2006 to better align new and existing solutions and corresponding processes and also began a process to consolidate certain business activities into new, globally-managed segments when deemed appropriate. The following changes were made to the business segments: the global institutional business within the Investments in New Businesses segment is included in the Enterprises segment, the franchise offering within the Investment Advisors segment is included in the Investments in New Businesses segment, and the registered mutual fund processing business within the Private Banking and Trust segment is now included in the Money Managers segment. For comparability, the prior period s results have been reclassified to reflect the realignment of the business segments.

As a result of consolidating the operations of LSV in 2006, LSV will be reported as a business segment. The operating results of LSV were previously reported in Equity in the earnings of unconsolidated affiliate and were not included in any business segment. The Company s reportable business segments are:

Private Banking and Trust - provides investment processing, fund investment 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 globally;

Money Managers - provides fund investment processing and institutional and separate account operations outsourcing solutions to banks, 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 and banks located outside the United States and investment processing solutions to banks and trust institutions in the United Kingdom and Continental Europe. This segment also includes our investment management programs offered to affluent families residing in the United States both directly and through a network of independent advisors; and

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

The information in the following tables is derived from the Company s internal financial reporting used for corporate management purposes. There are no inter-segment revenues for the three and nine months ended September 30, 2006 and 2005. Management evaluates Company assets on a consolidated basis.

The following tables highlight certain financial information about each of the Company s business segments for the three months ended September 30, 2006 and 2005.

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	LSV	Total
	For the Three Month Period Ended September 30, 2006						
Revenues	$ 73,225	$ 55,117	$ 42,115	$ 29,802	$ 22,747	$ 75,078	$ 298,084
Expenses (1)	45,352	27,535	27,210	22,131	32,278	45,990	200,496
Operating profit (loss)	$ 27,873	$ 27,582	$ 14,905	$ 7,671	$ (9,531)	$ 29,088	$ 97,588
Profit margin	38%	50%	35%	26%	(42)%	39%	33%

(1) The Investments in New Businesses segment includes $1,096 of minority interest of other shareholders relating to a joint venture. LSV includes $39,653 of minority interest of the other partners of LSV.

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	LSV	Total
	For the Three Month Period Ended September 30, 2005						
Revenues	$ 63,898	$ 52,525	$ 33,563	$ 26,602	$ 17,071	$	$ 193,659
Expenses	40,773	22,229	22,902	22,672	23,571		132,147
Operating profit (loss)	$ 23,125	$ 30,296	$ 10,661	$ 3,930	$ (6,500)	$	$ 61,512
Profit margin	36%	58%	32%	15%	(38)%		32%

A reconciliation of the total reported for the business segments to income before income taxes in the Consolidated Statements of Operations for the quarters ended September 30, 2006 and 2005 is as follows:

	2006	2005
Total operating profit from segments above	$ 97,588	$ 61,512
General and administrative expenses	(9,772)	(8,212)
Net loss from investments	(2,226)	(130)
Equity in earnings of unconsolidated affiliate		20,956
Interest income	3,397	1,979
Interest expense	(1,475)	(369)
Other income		941
LSV Employee Group (2)	1,212	
Income before taxes	$ 88,724	$ 76,677

(2) Includes $18 in General and administrative expenses, $35 in interest income and $1,229 in Interest expense from the consolidation of the accounts of LSV Employee Group. The total of these items, a net expense of $1,212, is included in Minority interest since the Company does not have any ownership interest in LSV Employee Group.

The following tables provide additional information for the three months ended September 30, 2006 and 2005 as required by SFAS 131 pertaining to our business segments:

	Capital Expenditures		Depreciation and Amortization	
	2006	2005	2006	2005
Private Banking and Trust	$ 11,890	$ 10,522	$ 2,989	$ 2,488
Investment Advisors	4,945	4,097	742	640
Enterprises	2,358	2,123	302	318
Money Managers	1,521	1,384	481	498
Investments in New Businesses	1,984	1,693	598	386
LSV	42		187	
General and Administrative	1,419	1,175	214	362
	$ 24,159	$ 20,994	$ 5,513	$ 4,692

The following tables highlight certain financial information about each of the Company s business segments for the nine months ended September 30, 2006 and 2005.

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	LSV	Total
	For the Nine Month Period Ended September 30, 2006						
Revenues	$ 212,388	$ 165,646	$ 119,166	$ 86,138	$ 66,134	$ 210,763	$ 860,235
Expenses (3)	136,197	82,745	77,814	67,158	85,312	129,768	578,994
Operating profit (loss)	$ 76,191	$ 82,901	$ 41,352	$ 18,980	$ (19,178)	$ 80,995	$ 281,241
Profit margin	36%	50%	35%	22%	(29)%	38%	33%

(3) The Investments in New Businesses segment includes $4,045 of minority interest of other shareholders relating to a joint venture. LSV includes $110,519 of minority interest of the other partners of LSV.

	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	LSV	Total
	For the Nine Month Period Ended September 30, 2005						
Revenues	$ 199,686	$ 149,741	$ 95,055	$ 76,116	$ 48,822	$	$ 569,420
Expenses	125,672	65,010	64,561	63,394	70,124		388,761
Operating profit (loss)	$ 74,014	$ 84,731	$ 30,494	$ 12,722	$ (21,302)	$	$ 180,659
Profit margin	37%	57%	32%	17%	(44)%		32%

A reconciliation of the total reported for the business segments to income before income taxes in the Consolidated Statements of Operations for the nine month periods ended September 30, 2006 and 2005 is as follows:

	2006	2005
Total operating profit from segments above	$ 281,241	$ 180,659
General and administrative expenses	(28,621)	(25,331)
Net (loss) gain from investments	(1,866)	219
Equity in earnings of unconsolidated affiliate		53,818
Interest income	9,149	5,739
Interest expense	(4,078)	(1,171)
Other income	1,588	941
LSV Employee Group (4)	3,289	
Income before taxes	$ 260,702	$ 214,874

(4) Includes $44 in General and administrative expenses, $42 in Interest income, and $3,287 in Interest expense from the consolidation of the accounts of LSV Employee Group. The total of these items, a net expense of $3,289, is included in Minority interest since the Company does not have any ownership interest in LSV Employee Group.

The following tables provide additional information for the nine month periods ended September 30, 2006 and 2005 as required by SFAS 131 pertaining to our business segments:

	Capital Expenditures		Depreciation and Amortization	
	2006	2005	2006	2005
Private Banking and Trust	$ 37,223	$ 31,077	$ 8,607	$ 6,998
Investment Advisors	15,226	12,728	2,257	1,789
Enterprises	7,611	6,046	931	886
Money Managers	4,676	4,121	1,453	1,381
Investments in New Businesses	7,213	4,997	1,898	1,166
LSV	65		572	
General and Administrative	4,370	3,655	714	1,108
	$ 76,384	$ 62,624	$ 16,432	$ 13,328

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, 2006 and 2005, the consolidated results of operations for the three and nine months ended September 30, 2006 and 2005 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 investment processing, and investment management business outsourcing solutions that help corporations, financial institutions, financial advisors, and affluent families create and manage wealth. 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 investment processing and investment management fees are earned as a percentage of average assets under management or administration. As of September 30, 2006, through our subsidiaries in which we have a significant interest, we administer $344.9 billion in mutual fund and pooled assets, manage $168.9 billion in assets, and operate from more than 20 offices in over a dozen countries.

In January 2006, we entered into a Guaranty and Collateral Agreement to provide an unsecured loan guaranty to LSV Employee Group to assist in their purchase of partnership units from two existing partners of LSV. Under current accounting rules, LSV Employee Group meets the definition of a variable interest entity and we are considered the primary beneficiary. We have also determined that we have a controlling financial interest in LSV due to our direct 43 percent ownership in LSV and our guaranty of LSV Employee Group s debt. As a result, we are required to consolidate the accounts of both LSV and LSV Employee Group as consolidated subsidiaries with the amount of ownership of the other existing partners reflected as minority interest. In prior periods, our proportionate share in the earnings of LSV earnings was reported in Equity in earnings of unconsolidated affiliate which was a component of other income. The presentation of LSV in our financial statements has changed due to this transaction but our proportionate share in the earnings of LSV was unaffected and remains at approximately 43 percent. LSV is now reported as its own business segment in 2006. We are not required to reclassify prior period results to conform to current year presentation (See Notes 1 and 2 to the Consolidated Financial Statements).

We reorganized our business segments in 2006 to better align new and existing solutions and corresponding processes. The Company has also begun a process to consolidate certain business activities into new, globally-managed segments when deemed appropriate. The following changes were made to the business segments: the global institutional business within the Investments in New Businesses segment is included in the Enterprises segment, the franchise offering within the Investment Advisors segment is included in the Investments in New Businesses segment, and the registered mutual fund processing business within the Private Banking and Trust segment is now included in the Money Managers segment. For comparability, the prior period s results have been reclassified to reflect the realignment of the business segments.

The Company s reportable business segments are:

Private Banking and Trust - provides investment processing, fund investment 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 globally;

Money Managers - provides fund investment processing and institutional and separate account operations outsourcing solutions to banks, 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 to investment advisors and banks located outside the United States and investment processing solutions to banks and trust institutions in the United Kingdom and Continental Europe. This segment also includes our investment management programs offered to affluent families residing in the United States both directly and through a network of independent advisors; and

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

Change in Critical Accounting Policy

Stock-Based Compensation

We adopted the provisions of SFAS 123(R) during the first quarter of 2006 to account for stock-based compensation. We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as various other assumptions. These assumptions include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We currently base our expectations for these assumptions from historical data. These expectations are subject to change in future periods. The impact of changes in these expectations would be exclusive to future grants only.

Our stock options do not vest ratably over a number of years but rather vest upon the attainment of certain diluted earnings per share targets established at the date of grant. The achievement of these predetermined diluted earnings per share targets may also affect the amount of options that could vest. The amount of stock-based compensation expense is based upon our estimates of when we believe the diluted earnings per share targets may be achieved. This has the effect of recognizing more stock-based compensation expense in earlier periods. If the diluted earnings per share targets are not achieved, our stock options are scheduled to vest in their entirety after seven years from the grant date. If our estimate of the attainment of the diluted earnings per share targets proves to be inaccurate, the remaining amount of stock-based compensation expense could be accelerated or spread out over a longer period. This may cause volatility in the recognition of stock-based compensation expense in future periods and could materially affect our net income and net income per share. During the three month period ended September 30, 2006, we accelerated the recognition of $3.1 million in stock-based compensation expense due to a change in management s estimate of when certain vesting targets will be achieved. In the first nine months of 2006, we recognized approximately $15.3 million in stock-based compensation expense. Based upon our current view of how many options will vest and when they will vest, we estimate that stock-based compensation expense will be recognized according to the following schedule:

Period	Stock-Based Compensation Expense
Remainder of 2006	$ 7,123
2007	10,354
2008	10,010
2009	9,685
2010	8,050
2011	2,612
2012 and thereafter	2,483
	$ 50,317

Financial Results

Revenues, Expenses and Income from Operations by business segment for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005 were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	Percent Change	2006	2005	Percent Change
Revenues:						
Private Banking and Trust	$ 73,225	$ 63,898	15%	$ 212,388	$ 199,686	6%
Investment Advisors	55,117	52,525	5%	165,646	149,741	11%
Enterprises	42,115	33,563	25%	119,166	95,055	25%
Money Managers	29,802	26,602	12%	86,138	76,116	13%
Investments in New Businesses	22,747	17,071	33%	66,134	48,822	35%
LSV	75,078		100%	210,763		100%
Total revenues	$ 298,084	$ 193,659	54%	$ 860,235	$ 569,420	51%
Expenses:						
Private Banking and Trust	45,352	40,773	11%	136,197	125,672	8%
Investment Advisors	27,535	22,229	24%	82,745	65,010	27%
Enterprises	27,210	22,902	19%	77,814	64,561	21%
Money Managers	22,131	22,672	(2)%	67,158	63,394	6%
Investments in New Businesses	32,278	23,571	37%	85,312	70,124	22%
LSV	45,990		100%	129,768		100%
Total expenses	$ 200,496	$ 132,147	52%	$ 578,994	$ 388,761	49%
Income from business segments:						
Private Banking and Trust	27,873	23,125	21%	76,191	74,014	3%
Investment Advisors	27,582	30,296	(9)%	82,901	84,731	(2)%
Enterprises	14,905	10,661	40%	41,352	30,494	36%
Money Managers	7,671	3,930	95%	18,980	12,722	49%
Investments in New Businesses	(9,531)	(6,500)	47%	(19,178)	(21,302)	(10)%
LSV	29,088		100%	80,995		100%
Total income from business segments	$ 97,588	$ 61,512	59%	$ 281,241	$ 180,659	56%
General and administrative expenses	(9,772)	(8,212)	19%	(28,621)	(25,331)	13%
Minority interest reflected in segments (1) (2)	40,749		100%	114,564		100%
Income from operations	$ 128,565	$ 53,300	141%	$ 367,184	$ 155,328	136%

(1) For the three month period ended September 30, 2006, includes $39,653 of minority interest of the other partners of LSV and $1,096 of minority interest of other shareholders relating to a joint venture. Does not include $1,212 of minority interest of LSV Employee Group.

(2) For the nine month period ended September 30, 2006, includes $110,519 of minority interest of the other partners of LSV and $4,045 of minority interest of other shareholders relating to a joint venture. Does not include $3,289 of minority interest of LSV Employee Group.

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	As of September 30,		
(In millions)	2006	2005	Percent Change
Assets invested in equity and fixed-income programs	$ 141,502	$ 113,421	25%
Assets invested in collective trust fund programs	14,044	13,864	1%
Assets invested in liquidity funds	13,390	11,253	19%
Assets under management	168,936	138,538	22%
Client proprietary assets under administration	176,001	185,852	(5)%
Assets under management and administration	$ 344,937	$ 324,390	6%

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. Assets invested in equity and fixed-income programs as of September 30, 2006 and 2005 include assets managed by LSV.

Consolidated Summary

Consolidated revenues increased $104.4 million, or 54 percent, to $298.1 million for the three months ended September 30, 2006 compared to the three months ended September 30, 2005. For the nine month period ended, revenues increased $290.8 million, or 51 percent, to $860.2 million compared to the prior year period. Net income increased $11.4 million, or 23 percent, to $60.5 million for the three month period and $36.3 million, or 26 percent, to $173.4 million for the nine month period. Diluted earnings per share for the three month period were $.60 per share as compared to $.48 per share a year ago, an increase of 25 percent. In the nine month period, diluted earnings per share increased to $1.71 per share as compared to $1.32 per share a year ago, an increase of 30 percent. Revenues increased significantly primarily as a result of consolidating the accounts of LSV into our financial statements beginning in 2006 as a result of the Guaranty and Collateral Agreement previously described. This had the effect of increasing revenues and expenses in 2006 for the results of LSV. Prior to 2006, our proportionate share in the net earnings of LSV was shown in a single line, Equity in the earnings of unconsolidated affiliate, which was classified as other income. In our opinion, the following items had a significant impact on our financial results for the three and nine month periods:

Our growth in revenues was primarily the result of consolidating the accounts of LSV in 2006. Revenues in the three and nine month periods ended September 30, 2006 include $75.1 million and $210.8 million, respectively, from LSV whereas revenues in the prior year periods did not include the revenues of LSV.

The net operating results of LSV contributed significantly to the increase in our income before income taxes in the three and nine month periods. Our proportionate share in the earnings of LSV was $29.1 million and $81.0 million for the three and nine month periods ended September 30, 2006, respectively, compared to $21.0 million and $53.8 for the comparable periods of 2005, an increase of $8.1 million, or 39 percent, for the three month period and $27.2 million, or 51 percent for the nine month period. The increases in both periods were due to increased assets from new and existing clients, as well as improved capital markets.

Revenue improvement in our Investment Advisors segment resulted from higher asset-based fees due to capital market appreciation in 2005 and 2006. Favorable capital market conditions increased the value of assets we manage for our existing clients, resulting in an increase in our base revenues. Capital market appreciation also contributed to the increase in revenues in the Enterprises and Investments in New Businesses segments.

New sales in our Private Banking and Trust, 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 the strengthening market acceptance of our new and existing strategies and solutions.

In the first quarter of 2006, we adopted the provisions of SFAS 123(R) to account for stock-based compensation. We elected the modified-prospective method, under which prior periods are not revised. In accordance with SFAS 123(R), we recognized $7.1 million and $15.3 million in stock-based compensation expense in the three and nine months ended September 30, 2006, respectively. Stock-based compensation expense in the three month period included $3.1 million related to options granted that will hit the relevant vesting target earlier than originally assumed. We expect this increased level of stock-based compensation expense to continue in the fourth quarter of 2006.

Substantial expenditures for the development of our Global Wealth Platform have continued 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 $53.9 million in the nine months ended September 30, 2006 compared to $49.9 million in the comparable period of 2005 in software development costs for this platform. We expect to incur significant development costs throughout the remainder of 2006 and 2007.

Increased spending for sales and marketing and operational infrastructure related to the delivery and support of new company strategies and solutions and to servicing new clients negatively impacted consolidated operating margins. A substantial portion of these costs relate to personnel and third-party service providers.

In the first nine months of 2006, we determined that the front-end component of the SEI Advisor Desktop did not meet the expected functionality requirements and would require additional investment. $3.4 million of software development costs was written-off and is reflected in the Investment Advisors segment. Additionally, $2.3 million in previously capitalized software development costs for the Global Wealth Platform was written-off and affected all of our business segments except LSV.

We continued our stock repurchase program during 2006 and purchased 249,500 shares at an average price of approximately $53 per share in the third quarter and 1,857,000 shares at an average price of approximately $44 per share in the nine month period. This caused our diluted earnings per common share to grow at a faster rate than our earnings.

As a result of the change in presentation of LSV, for comparability purposes, if we had consolidated the accounts of LSV beginning in 2005, revenues on a pro-forma basis would have been $248.8 million and $711.1 million for the three and nine month periods ended September 30, 2005, respectively. This represents an increase in revenues of $49.3 million, or 20 percent, in the three month period and $149.1 million, or 21 percent, in the nine month period ended September 30, 2006. LSV revenues were $55.1 million in the third quarter of 2005 and $141.7 million in the nine month period ended September 30, 2005. Since our percentage ownership in LSV did not change in 2006 compared to 2005, there was no effect on net income as a result of the change in presentation of LSV.

Business Segments

Private Banking and Trust

Revenues increased $9.3 million, or 15 percent, in the three month period and $12.7 million, or six percent, in the nine month period ended September 30, 2006 compared to the prior year corresponding period and were primarily affected by:

An increase in revenues in our BSP solution due to new clients;

The implementation of a new large bank client;

The conversion of an existing large bank client from our ASP solution to our BSP solution;

A non-recurring fee of $4.7 million received by us from the buyout of an existing contract in the third quarter of 2006;

Cross-sales of other services to existing clients; partially offset by

The loss of a large bank client in early 2005.

Operating margins increased to 38 percent, compared to 36 percent in the three month period and decreased to 36 percent, compared to 37 percent in the nine month period. Operating income increased by $4.7 million, or 21 percent, in the three month period and $2.2 million, or three percent, in the nine month period and was primarily affected by:

- Increased non-capitalized technology spending and the write-off of previously capitalized software development costs related to the Global Wealth Platform in 2006;
- The recognition of stock-based compensation expense; and
- Increased personnel and other operational and technology costs necessary to deliver business outsourcing solutions; partially offset by
- An increase in revenues, which includes the non-recurring buyout fee mentioned above; and
- A decrease in project-related costs for the implementation of new clients.

Investment Advisors

Revenues increased $2.6 million, or five percent, in the three month period and $15.9 million, or 11 percent, in the nine month period ended September 30, 2006 and were primarily affected by:

- Increased investment management fees from existing clients due to higher assets under management caused by improved capital market conditions during 2005 and 2006; and
- An increase in the average basis points earned on assets during the first half of 2006.

Operating margins decreased to 50 percent, as compared to 57 percent in both the three and nine month periods. Operating income decreased by $2.7 million, or nine percent, in the three month period and decreased by $1.8 million, or two percent, in the nine month period and was primarily affected by:

- The write-off of the front-end component of the SEI Advisor Desktop for $3.4 million during the second quarter of 2006;
- Increased non-capitalized technology spending and the write-off of previously capitalized software development costs related to the Global Wealth Platform in 2006;
- Increased personnel, promotion and technology costs related to our operating infrastructure, including investment management operations;
- The recognition of stock-based compensation expense; partially offset by
- An increase in revenues.

Enterprises

Revenues increased $8.6 million, or 25 percent, in the three month period and $24.1 million, or 25 percent, in the nine month period ended September 30, 2006 and were primarily affected by:

Asset funding from new sales of our retirement solutions; and

Increased assets under management from existing clients caused by improved capital market conditions during 2005 and 2006.

Operating margins increased to 35 percent, as compared to 32 percent in both the three and nine month periods. Operating income increased $4.2 million, or 40 percent, in the three month period and $10.9 million, or 36 percent, in the nine month period and was primarily affected by:

An increase in revenues; less

Increased direct expenses associated with the increase in revenues;

Increased personnel costs for our global institutional business and investment management operations; and

The recognition of stock-based compensation expense.

Money Managers

Revenues increased $3.2 million, or 12 percent, in the three month period and $10.0 million, or 13 percent, in the nine month period ended September 30, 2006 and were primarily affected by:

Asset funding from existing clients of hedge fund, separate account and total operational outsourcing solutions;

Cash flows from new clients; and

Sales of additional products to our existing clients; partially offset by

Client losses, primarily fund administration clients.

Operating margins increased to 26 percent, as compared to 15 percent in the three month period and to 22 percent, as compared to 17 percent in the nine month period. Operating income increased $3.7 million, or 95 percent, in the three month period, and $6.3 million, or 49 percent in the nine month period, and was primarily affected by:

An increase in revenues; partially offset by

Increased investment spending in connection with the build out of our separately managed account and alternative investments operations during the first half of 2006; and

The recognition of stock-based compensation expense.

Investments in New Businesses

Revenues increased $5.7 million, or 33 percent, in the three month period and $17.3 million, or 35 percent, in the nine month period ended September 30, 2006 and were primarily affected by:

Asset funding from new and existing global investment management clients;

Increased assets under management from existing global investment management clients caused by improved capital market conditions during 2005 and 2006; partially offset by

The loss of a large distributor client in Continental Europe in the second quarter of 2005.

Losses from operations increased by $3.0 million, or 47 percent, in the three month period and were primarily affected by:

Increased personnel and other operational costs necessary to deliver business outsourcing solutions; and

The recognition of stock-based compensation expense; partially offset by

An increase in revenues.

Losses from operations decreased by $2.1 million, or ten percent, in the nine month period and were primarily affected by:

An increase in revenues; partially offset by

Increased direct expenses associated with higher levels of assets from new and existing global investment management clients, net of a reduction in direct cost associated with the loss of the large distributor client mentioned above;

Increased non-capitalized technology spending related to the Global Wealth Platform;

Increased personnel and other operational costs necessary to deliver business outsourcing solutions; and

The recognition of stock-based compensation expense.

LSV

Total revenues were $75.1 million, compared to $55.1 million in the prior year three month period, an increase of 36 percent. In the nine month period, revenues were $210.8 million, compared to $141.7 million, an increase of 49 percent. The increase in revenues was primarily due to increased assets under management from new sales and capital market appreciation. Our earnings from LSV were $29.1 million, compared to $21.0 million in the three month period, an increase of 39 percent. In the nine month period, our earnings were $81.0 million, compared to $53.8 million, an increase of 50 percent.

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 and were $9.8 million and $28.6 million for the three and nine months ended September 30, 2006, respectively, compared to $8.2 million and $25.3 million for the same periods a year ago. The increase in these expenses in the nine month period was primarily due to the recognition of stock-based compensation expense, general overhead costs and resources and associated expenses for our corporate compliance program and adherence to regulations of the Sarbanes-Oxley Act of 2002.

Other Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Equity in the earnings of unconsolidated affiliate	$	$ 20,956	$	$ 53,818
Net (loss) gain from investments	(2,226)	(130)	(1,866)	219
Interest income	3,397	1,979	9,149	5,739
Interest expense	(1,475)	(369)	(4,078)	(1,171)
Minority interest	(39,537)		(111,275)	
Other		941	1,588	941
Total other (expense) income, net	$ (39,841)	$ 23,377	$ (106,482)	$ 59,546

Beginning in 2006, we consolidated the accounts of LSV and LSV Employee Group into our financial statements as a result of the unsecured loan guaranty. The ownership percentage of the other existing partners of LSV and LSV Employee Group is reflected in Minority interest. Prior to 2006, our proportionate share of the earnings from LSV was reflected in Equity in the earnings of unconsolidated affiliate.

Minority interest includes the amount owned by other shareholders of entities in which we have a significant or controlling interest. The accounts of these entities are included in our consolidated financial statements. Minority interest on the accompanying Consolidated Statements of Operations consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
LSV Asset Management	$ (39,653)	$	$ (110,519)	$
LSV Employee Group	1,212		3,289	
Other entities	(1,096)		(4,045)	
Total minority interest	$ (39,537)	$	$ (111,275)	$

Net (loss) gain from investments consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Realized gain from sales of marketable securities	$	$ 249	$ 1,901	$ 512
Decrease in fair value of derivative financial instruments	(414)	(379)	(496)	(293)
Other-than-temporary declines in market value	(1,979)		(1,979)	
Other realized gains (losses)	167		(1,292)	
Net (loss) gain on investments	$ (2,226)	$ (130)	$ (1,866)	$ 219

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).

Other-than-temporary declines in market value includes an impairment charge of approximately $2.0 million related to an investment in a Company-sponsored mutual fund.

Other realized losses in 2006 includes the write-down of approximately $1.5 million of an equity investment in a private company carried at cost.

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 2006 was primarily due to an increase in interest rates and investments of cash into higher-yielding investment vehicles. Interest income for the nine month period of 2006 includes approximately $977 thousand of interest earned by LSV from their average outstanding cash balance.

Interest expense is directly attributable to our long-term debt and other borrowings. Interest expense for our borrowings was approximately $791 thousand for the nine months ended September 30, 2006 and decreased over the comparable period mainly due to the lower principal balances of our debt outstanding. Interest expense for the nine months of 2006 includes approximately $3.3 million in interest costs associated with the borrowings of LSV Employee Group which was eliminated through Minority interest and, therefore, had no impact on our net income.

Income Taxes

Our effective tax rates were 31.8 percent and 35.8 percent for the three months ended September 30, 2006 and 2005, respectively. For the nine months ended September 30, 2006 and 2005, our effective tax rates were 33.5 percent and 36.2 percent, respectively. Our effective tax rate is affected by certain discrete items. The impact of discrete items must be recognized in the period in which the changes occur. Discrete items include changes in measurement on certain tax positions, legislative changes and adjustments to prior-year estimated tax liabilities to reflect actual amounts on the Company s 2005 income tax returns. The discrete items which favorably affected the tax rate for the three months ended September 30, 2006 were the recent Pennsylvania legislation which increased the annual limitation on the use of net operating loss carryforwards from $2.0 million per year to $3.0 million and the removal of certain reserves for tax uncertainty because the statute of limitations has expired. We expect our tax rate in the fourth quarter of 2006 to generally return to the level effective during 2005.

Liquidity and Capital Resources

	For the Nine Months Ended September 30,	
	2006	2005
Net cash provided by operating activities	$ 251,900	$ 142,955
Net cash used in investing activities	(88,756)	(73,695)
Net cash used in financing activities	(61,991)	(152,517)
Net increase (decrease) in cash and cash equivalents	101,153	(83,257)
Cash and cash equivalents, beginning of period	130,128	216,966
Cash and cash equivalents, end of period	$ 231,281	$ 133,709

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, 2006, our unused sources of liquidity consisted of unrestricted cash and cash equivalents of $231.3 million and the full amount available through the Credit Facility of $200.0 million.

Beginning in 2006, we are now required under accounting rules to consolidate the accounts of LSV and LSV Employee Group which had a significant impact on the presentation of our cash flows. This increased our cash balance by $64.4 million at September 30, 2006. We recognized $16.9 million in cash flow from operations as a distribution in 2006 that related to our proportionate share of the earnings of LSV in the prior year. Additionally, $111.3 million of Minority interest primarily relates to the other partners in LSV, of which $57.7 million has been distributed. The net amount, $53.6 million, significantly boosted our cash flow from operations. These two items increased cash flow from operations $70.5 million in 2006.

In January 2006, LSV Employee Group purchased an eight percent interest from two existing partners in LSV for $92.0 million by borrowing $82.8 million in order to finance the majority of the purchase price. These items are excluded from our cash flow statement as it had no impact on cash.

Net cash provided by operating activities was also affected by the adoption of SFAS 123(R). Tax benefits recognized is now recorded as a financing activity. Prior to adoption of SFAS 123(R), this was recorded as an operating activity.

Net cash used in investing activities primarily includes the capitalization of costs incurred in developing computer software, purchases and sales of marketable securities, and capital expenditures. We continued to make substantial investments in the development of our new Global Wealth Platform. We are currently in the application development stage of the project and a substantial 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 $53.9 million in 2006 as compared to $49.9 million in 2005. The increase in capitalized software development costs was primarily due to a higher level of spending. We expect this level of spending to continue through the remainder of 2006 and 2007.

In 2006, we had $17.2 million in net purchases of marketable securities versus $11.3 million in net purchases in 2005. Purchases of marketable securities in 2006 were mainly comprised of investments for the testing and subsequent start-up of new global investment products. Purchases in 2005 were mainly comprised of additional investments made into a company-sponsored mutual fund for regulatory compliance purposes. Capital expenditures in 2006 and 2005 primarily include computer systems and equipment to support our ongoing operations. We began construction of an additional building and parking facility at our corporate headquarters during the third quarter of 2005. The expansion is estimated to cost at least $24.0 million and is expected to be completed in 2007. Through September 30, 2006, we have spent approximately $9.0 million related to the expansion project, of which $6.3 million was spent in the first nine months 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 $12.7 million in 2006 and $8.2 million in 2005. We made our final payment on the term loan in the first quarter of 2006. We still owe $9.0 million on our Senior Notes, of which $4.0 million is due in February 2007. 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 up to $1.1 billion worth of our common stock. Through October 31, 2006, we repurchased approximately 120.6 million shares of our common stock at a cost of just under $1.1 billion and had $13.0 million of authorization remaining for the purchase of our common stock under this program. We spent approximately $81.6 million during the first nine months of 2006 and $129.0 million during the first nine months of 2005 for the repurchase of our common stock. Currently, there is no expiration date for our common stock repurchase program.

Cash dividends paid were $22.7 million or $.23 per share in the first nine months of 2006 and $21.3 million or $.21 per share in the first nine months of 2005. Our Board of Directors intends to declare future dividends on a semi-annual basis.

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.

Off Balance Sheet Arrangements

On January 24, 2006, we entered into a Guaranty and Collateral Agreement (the Guaranty Agreement) with LSV Employee Group, LLC (the Borrower), LaSalle Bank National Association as administrative agent (the Agent), and certain other lenders party thereto. We entered into the Guaranty Agreement in order to facilitate the Borrower s acquisition of certain partnership interest of LSV.

We and other investors are partners of LSV. Some partners of LSV, excluding SEI, sold in the aggregate an eight percent interest (the Transferred Interests) in LSV to the Borrower, which is owned by several current employees of LSV. In order to finance a portion of the purchase price for such interests, the Borrower obtained financing from the Agent and other lenders in the form of a term loan pursuant to the terms of a Credit Agreement dated January 24, 2006. LSV is party to the Credit Agreement to confirm certain representations, warranties and agreements. The principal amount of the term loan is $82.8 million. Principal and interest payments are made by the Borrower in quarterly installments. The principal balance on the term loan must be paid in full by the Borrower by January 24, 2011.

According to the terms and conditions of the Guaranty Agreement, we agreed to provide an unsecured guaranty to the lenders of all obligations of the Borrower under the Credit Agreement. Our obligations under the Guaranty Agreement are triggered in the event of default which includes non-payment of the loan by the Borrower, non-payment by the Borrower or LSV of other Borrower debt or LSV debt, certain events of bankruptcy or insolvency with respect to the Borrower of LSV, and a change of control. Upon the occurrence of an event of default, in addition to the rights of the lenders to seek repayment from the Borrower and exercise all rights as secured creditors against the Borrower, the lenders have the right to seek payment from us of the Borrower s obligations under the Credit Agreement. As recourse for such payment, we will be subrogated to the rights of the lenders under the Credit Agreement and the Guaranty Agreement, including the security interest in the pledged Transferred Interests.

As a result of the guaranty provided to LSV Employee Group, we must reflect the total remaining amount of debt outstanding under the terms of the Credit Agreement until the balance is paid in full. As of September 30, 2006, the total remaining unpaid principal balance owed by LSV Employee Group was $75.5 million, of which the current portion is $10.0 million which is reflected in Current portion of long-term debt and the remaining $65.5 million is reflected in Long-term Debt on the accompanying Consolidated Balance Sheets.

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 in Part I, Item 1A. These risks include the following:

changes in capital markets that may affect our revenues and earnings;

product development risk;

the performance of the funds we manage;

consolidation within our target markets, including consolidations between banks and other financial institutions;

the affect of extensive governmental regulation;

systems and technology risks;

data security risks;

third party approval of our investment products with advisors affiliated with independent broker-dealers or other networks;

operational risks associated with the processing of investment transactions;

risk of failure by a third-party service provider;

fluctuations in foreign currency exchange rates; and

retention of senior management personnel.

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. As a result of these examinations, inquiries and requests, we review our compliance procedures and business operations and make changes as we deem necessary. These activities resulted in an increased level of general and administrative costs. 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. A similar inquiry recently resulted in an SEC order sanctioning one of our mutual fund administrator competitors. Given the fact-specific nature of the practices relating to the marketing and distribution of fund shares, we cannot infer from the competitor s order involving the competitor s practices what the ultimate resolution of this SEC inquiry into the Company s practices will be.

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.

Foreign Currency Risk - We transact business in the local currencies of various foreign countries, principally Canada, Ireland, the United Kingdom and South Korea. 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, 2006, we held derivative financial instruments with a notional amount of $9.9 million. 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 sheets 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. Additionally, LSV Employee Group entered into interest rate swap agreements to convert its floating rate long-term debt to fixed rate debt. These swaps have a total notional value of $55.5 million and expected maturity dates of March 2009 and January 2011. We did not enter into or hold any derivative financial instruments for trading purposes during 2006 or 2005.

Income before income taxes include losses of $496 thousand and $293 thousand in the nine month periods of 2006 and 2005, 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:

Investment	Hypothetical Change In Value (in thousands)
Mutual Funds	$ 6,215
Other financial instruments	950
	$ 7,165

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, 2006 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 was purportedly made on behalf of all persons that purchased or held PBHG mutual funds during the period from November 1, 1998 to November 13, 2003 and related generally to various market timing practices allegedly permitted by the PBHG Funds. The suit named 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 alleged that SIDCO was the named distributor/underwriter from November 1998 until July 2001 for various PBHG funds in which market timing allegedly occurred during that period. The PBHG Complaint generally alleged that the prospectus for certain PBHG funds made misstatements and omissions concerning market timing practices in PBHG funds. The PBHG Complaint alleged 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 did not name SIDCO or any of its affiliates as a market timer, facilitating or clearing broker or financier of market timers. The PBHG Complaint sought unspecified compensatory and punitive damages, disgorgement and restitution. In 2006, the plaintiffs submitted a proposed form of order dismissing SIDCO from the action, but the Court has not yet acted on the proposed order.

Item 1A. Risk Factors

Information regarding risk factors appears in Part I - Item 1A of the Company s Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form

10-K for 2005.

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

(e) Our Board of Directors has authorized the repurchase of up to $1.1 billion worth of our common stock. 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, 2006 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1 31, 2006				$ 33,579,000
August 1 31, 2006	58,500	50.33	58,500	30,635,000
September 1 30, 2006	191,000	53.55	191,000	20,407,000
Total	249,500	52.79	249,500	

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 6, 2006

By: /s/ Dennis J. McGonigle
Dennis J. McGonigle
Chief Financial Officer