

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0 - 10200

SEI INVESTMENTS COMPANY

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-1707341
(I.R.S. Employer
Identification No.)

1 Freedom Valley Drive, Oaks, Pennsylvania
(Address of principal executive offices)

19456-1100
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$2.5 billion based on the closing price of \$37.35 as reported by NASDAQ on June 30, 2005 (the last business day of the registrant's most recently completed second fiscal quarter). For purposes of making this calculation only, the registrant has defined affiliates as including all executive officers, directors and beneficial owners of more than ten percent of the common stock of the registrant.

**APPLICABLE ONLY TO REGISTRANTS 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 Section 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 REGISTRANTS)

Number of shares outstanding of each of the registrant's classes of common stock, as of the close of business on February 15, 2005:

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference herein:

1. The definitive proxy statement relating to the registrant's 2006 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year covered by this annual report, is incorporated by reference in Part III hereof.
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SEI Investments Company
Fiscal Year Ended December 31, 2005

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PART I

Forward Looking Statements

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve certain known and unknown risks, uncertainties and other factors, many of which are beyond our control, and are not limited to those discussed in Item 1A, “Risk Factors.” All statements that do not relate to historical or current facts are forward-looking statements. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to present or anticipated products and markets, future revenues, capital expenditures, expansion plans, future financing and liquidity, personnel, and other statements regarding matters that are not historical facts or statements of current condition.

Any or all forward-looking statements contained within this Annual Report on Form 10-K may turn out to be wrong. They can be affected by inaccurate assumptions we might make, or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, we cannot guarantee any forward-looking statements. Actual future results may vary materially.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You are advised, however, to consult any further disclosures we make on related subjects in our filings with the U.S. Securities and Exchange Commission (SEC).

Item 1. Business.

Overview

SEI (NASDAQ:SEIC) is a leading global provider of asset management services and investment technology solutions. The company’s innovative solutions help corporations, financial institutions, financial advisors, and affluent families create and manage wealth. As of December 31, 2005, through our subsidiaries and partnerships in which we have a significant interest, we administer \$312.1 billion in mutual fund and pooled assets, manage \$148.5 billion in assets, and operate from more than 20 offices in over a dozen countries.

We offer wealth management business solutions to:

- Individual investors, including trusts, affluent individuals and families,
- Institutional investors, and
- Wealth management service firms that serve individual and institutional investors.

Most of our products and services are known as business process outsourcing solutions. We provide the necessary expertise and capabilities to take complete responsibility for selected wealth management business processes, enabling clients to outsource these processes to us.

Our wealth management business solutions include:

- Investment processing and fund processing outsourcing solutions for banks, trust institutions, investment managers, and other wealth service firms,
- Investment management and administrative outsourcing solutions for institutional investors, retirement plan sponsors, and not-for-profit organizations, and
- Integrated investment processing, investment management and other wealth management outsourcing solutions for banks, investment advisors, and other wealth advisory firms who serve affluent investors.

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General Development of the Business

For over 35 years, SEI has been a leading provider of outsourcing solutions for the financial services industry. Key milestones include:

- 1968 - Began doing business as Simulated Environments, Inc. providing computer-based training simulations for bank loan officers.
- 1972 - Developed investment accounting software and processing services for bank trust departments.
- 1981 - Became a public company.
- 1982 - Entered the asset management business, introducing money market mutual funds for banks.
- 1990 - Offered fund accounting services to banks and other mutual fund sponsors.
- 1993 - Developed 'Manager of Manager' asset management programs for investment advisors and institutional investors.
- 1996 - Began offering asset management programs to investors in Canada, Europe, South Africa, Asia and other global markets.

Strategy

We seek to achieve growth in earnings and shareholder value by strengthening our position as a provider of wealth management business solutions. Business strategies to achieve this objective include:

- *Help "baby boomers" manage their life and wealth goals.* We are enhancing our solutions to enable our wealth service firm clients to better serve their clients, many of who are members of the post-World War II "baby boom" generation now approaching retirement. Baby boomers demand a holistic wealth management experience that focuses on their life goals and provides them with an integrated array of financial services. Our strategy is to help these investors identify their goals, and offer comprehensive life and wealth advisory services including life planning, investments and other financial services.
- *Help corporations manage retirement plans.* Under-funded pension plans threaten the financial health of many corporations. Companies may not align their pension plan design with corporate finance objectives. Our strategy is to help retirement plan sponsors evaluate the impact of their pension plans on the overall financial health of the organization and to deliver customized solutions that integrate pension and corporate finance, including asset management programs and administrative outsourcing solutions.
- *Create broader solutions for wealth service firms.* Global banks, investment managers, and other wealth service firms demand greater efficiencies and additional capabilities to support their clients and improve their business success. Our strategy is to enhance investment processing and fund processing services, and offer broader outsourcing solutions to these institutions.
- *Expand into global markets.* Our strategy is to adapt the above wealth management solutions to meet the needs of institutions and investors in non-U.S. markets.

Fundamental Principles

We are guided by these fundamental principles in managing the business and adopting these growth strategies:

- *Achieve organic growth in revenue and earnings.* We seek to grow the business by providing additional services to clients, adding new clients, introducing new products, and adapting products for new markets.
- *Forge long-term client relationships.* We strive to achieve high levels of customer satisfaction so we may forge close and long lasting client relationships. We believe these intimate relationships enable us to market additional services, and acquire knowledge and insights that fuel the product development process.
- *Invest in product development.* We continually enhance our products and services to keep pace with industry developments, regulatory requirements, and the emerging needs of markets and clients. We believe investments in research and development give us a competitive advantage in our markets.
- *Adopt business models which generate recurring revenues and positive cash flows.* Recurring revenues generate predictable cash flows, which serve as a source of funds for continuing operations, investments in new products, common stock repurchases, dividend payments, and principal and interest payments on debt.

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- *Leverage investments across the business.* We design and implement product solutions and business process capabilities to serve the needs of multiple markets. This philosophy avoids duplicative research and development efforts, facilitates the design of comprehensive solutions, and promises potential operating efficiencies which benefit corporate profitability.
- *Create value for our shareholders.* The objective of achieving long-term sustainable growth in revenues and earnings strongly influences the management of our business. This philosophy guides corporate management practices, strategic planning activities, and employee compensation practices.

Products and Services

Investment Processing

We offer investment processing services to U.S. banks, trust companies, investment managers, and European private banks. Investment processing services are an integral component of our wealth management business solutions offered to banks and investment advisors. Our proprietary software system, TRUST 3000®, supports our U.S. investment processing business by serving as the system of record for trust institutions. TRUST 3000® is a complete trust accounting and investment system that provides straight-through-business processing for investment transactions for multiple types of investment accounts, including personal trust, corporate trust, institutional trust, and non-trust investment accounts.

Through the integrated investment functionality of TRUST 3000®, we support the full range of activities for wealth management including:

- Investment management – portfolio analysis, investment decision support, and performance measurement reporting;
- Trade execution services – straight-through trade order management and electronic trading services for equities and mutual funds;
- Account services – cash processing and investor reporting for all accounts. Our software supports many specialized activities associated with personal trust management including principal and income segregation, uninvested cash and overdraft management, and beneficiary payment processing;
- Investment processing – securities processing and investment accounting for all types of domestic and global securities; and
- Compliance reporting – audit, compliance, and regulatory reporting.

This core accounting application combines comprehensive trust and securities accounting with integrated and automated front, middle, and back-office solutions. Clients can manage their front-office operations through the use of our systems to maintain and service their clients. The middle-office performs the administrative activities of the front-office and provides the connection between the front-office and the investment operations area, which is the back-office.

Investment Management Programs

We offer investment management programs to affluent investors and families, and institutional investors. These programs are built around investment strategies which are tailored to meet the needs of different investors, taking into consideration their objectives and risk tolerances. Investment management programs consist of mutual funds and separate account programs. Mutual funds cover multiple asset classes including money market, equity, fixed-income and alternative investment portfolios, primarily in the form of registered investment companies. Mutual funds are organized into trusts which are governed by various boards of trustees. We serve as the administrator, transfer agent, investment advisor and distributor for many of these funds. The investment advisory and distribution contracts are subject to annual renewal by the board of trustees of the funds. These contracts provide for the payment of fees to us based on a percentage of the average daily net assets of each fund.

We utilize a disciplined investment process that focuses on investors' objectives. This investment process is based on five principles: asset allocation, portfolio structure, tax management, multiple specialist managers, and continuous portfolio management. The investment management programs allow access to some of the best style-specific money managers who are normally not available to individual investors. This innovative approach, called Manager-of-Managers, is designed to promote adherence to our disciplined investment principles in that each manager's performance is tracked and scrutinized. The potential benefit of this method is improved performance with reduced volatility, because it eliminates the task of attempting to predict which style of investing will be in favor at any particular time. We maintain the asset class exposure within the specifically defined boundaries of our client's asset allocation plan by incorporating a formal rebalancing program in the asset management process.

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As of December 31, 2005, we managed \$100.7 billion in total assets, net of assets managed by our unconsolidated affiliate, including \$74.2 billion invested in our fixed-income and equity funds or through separately managed account programs, \$12.5 billion invested in our liquidity funds and \$14.0 billion invested in our collective trust fund programs.

Fund Processing

We offer fund administration and distribution services to U.S. banks, investment management firms and investment companies that sponsor and distribute mutual funds and other U.S. regulated investments. We also offer these services to investment managers worldwide that sponsor and distribute alternative investments, including hedge funds, fund of funds, private equity funds, and other investment vehicles.

Recordkeeping and administrative activities associated with the operations of pooled investment funds include:

- Fund accounting – investment tracking, transaction processing, fund valuation, investment and tax reporting, and regulatory compliance;
- Fund administration – financial statement preparation, regulatory filings, coordination of audits, legal and tax support services;
- Trustee and custodial services – trustee and custody services for U.S. regulated investments, and off-shore investments;
- Investor services – shareholder services for fund investors; and
- Distribution support services – business, marketing and product development planning.

We also offer operational outsourcing solutions for the administration and management of separately managed account programs.

As of December 31, 2005, we administered \$163.5 billion in non-SEI mutual funds and other pooled assets.

Business Segments

Business segments are organized around our target markets. Financial information about each business segment is contained in Note 11 to the Consolidated Financial Statements. Our business segments are:

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

Investment Advisors – provides investment management programs to affluent investors through a network of independent registered investment advisors, financial planners, and other investment professionals in the United States;

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

Money Managers – provides fund investment processing and institutional and separate account operational outsourcing solutions to traditional investment managers 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; and

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

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The percentage of consolidated revenues generated by each business segment for the last three years was:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Private Banking and Trust	37%	42%	49%
Investment Advisors	27%	26%	25%
Enterprises	11%	10%	10%
Money Managers	11%	11%	8%
Investments in New Businesses	14%	11%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Private Banking and Trust

The Private Banking and Trust segment offers our investment processing, fund processing and investment management programs in the United States and Canada to banks and trust institutions of all sizes. By outsourcing their investment processing services, we believe clients reduce risk, improve quality, gain operational efficiency, and are better able to focus their resources on servicing their clients. Our investment processing solution is offered through two primary business models: an application services provider (ASP) model and a business services provider (BSP) model.

- **Application Services Provider**

Banks using our ASP services outsource investment processing technology software and processing but retain responsibility for investment operations, client administration, and investment management. We own and maintain all investment processing technology applications. Clients operate our software remotely while fully supported by our data center using dedicated telecommunications networks. The ASP model includes a dedicated relationship team that supports our client's business. We assist our clients with strategically reevaluating their systems and process needs as their businesses change.

- **Business Services Provider**

The BSP model was designed for institutional clients that prefer to outsource their entire trust department operations and processes by combining our technological strength and investment expertise to assume the entire back-office trust function. The BSP model includes: investment processing; account access and reporting; audit, compliance and regulatory services; custody and safekeeping of assets; income collections; securities settlement; and other related trust activities.

New clients undergo a system implementation process during which we convert client data and train the client on the use of our systems. Implementations for a large bank conversion are led by a project team which assists the client with business reengineering efforts. The time period for conversions can range from a few months for small institutions to 15 months or more for large institutions.

Client contracts for the ASP and BSP models have initial terms that are generally from three to seven years in length. Revenues from our investment processing solution are earned as monthly fees for contracted services including computer processing services, software licenses, and trust operations services. Revenues are also earned as transaction-based fees for providing securities valuation and trade-execution services. Our principal competitors in the investment processing business for this segment include SunGard Data Systems Inc., Metavante Corporation, a division of Marshal and Isley, and other financial institutions that operate their own trust accounting systems.

We also offer banks and trust institutions a fund processing solution. Contracts with bank mutual fund complexes for fund processing services have terms that are from two to five years. Fees are primarily earned as a percentage of average assets under administration of the bank mutual fund complexes. Our principal competitors include The BISYS® Group, Inc., Federated Investors, Inc., PFPC Worldwide Inc., a member of the PNC Financial Services Group, Inc., State Street Bank and Trust Company, and other investment company administrators.

Some of our bank clients participate in our investment management programs. These banks offer their clients the ability to invest in our mutual funds or our separate account programs. Fees are primarily earned as a percentage of assets under management.

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At December 31, 2005, we had significant relationships with approximately 150 banks and trust institutions, including trust departments of 8 of the 15 largest United States banks. We also had single-product relationships with approximately 200 additional banks and trust institutions.

Investment Advisors

The Investment Advisors segment offers wealth management solutions to registered investment advisors, many of whom are affiliated with or are registered as independent broker-dealers, financial planners, and life insurance agents located throughout the United States. These financial advisors outsource many aspects of their investment process, back-office operations, marketing, and client reporting and administration to us. The comprehensive solution allows our clients to focus their resources on creating financial plans, implementing investment strategies, and educating and servicing their customers. These financial advisors customize portfolios to include separate account managers as well as mutual funds. Our wealth and investment programs are designed to attract the assets of affluent or high-net-worth individual investors (defined as individuals with over \$500,000 of investable assets) and small to medium-sized institutional plans.

Although we have agreements with over 4,000 financial advisors, our business is based primarily on approximately 1,200 clients who, at December 31, 2005, had at least \$5.0 million each in customer assets invested in our mutual funds and separately managed accounts.

Revenues are earned largely as a percentage of average assets under management. The principal competition for our asset management products is from other investment advisors and mutual fund companies. In the advisor distributor channel, the principal competitors include Frank Russell Company, a subsidiary of Northwestern Mutual, Lockwood Advisors, Inc., a subsidiary of Bank of New York, and other broker-dealers.

Our goal-based investment program was first introduced during 2004. This program, totaling over \$2.5 billion in assets at the end of 2005, is designed to assist higher-net-worth investors with a system for portfolio construction to support customers with multiple goals across diverse risk and time parameters.

In 2005, we introduced a lending program for end clients backed by the securities held in their investment account. This provides customers with another alternative for liquidity on their assets held with SEI while avoiding the tax burden of selling securities.

In 2005, we continued our strategy of expanding the scope of our offering to advisors and their end clients to address the needs of high-net-worth individuals. SEI Wealth Network® is a program through which qualified advisors may participate in our branded network to deliver a comprehensive wealth advice and solution offering to their clients, including financial management, estate planning, insurance, and other wealth needs. We currently have seven advisors with franchise agreements.

Enterprises

The Enterprises segment offers a retirement plan outsourcing solution to corporations, unions, municipalities, hospitals, and other institutional investors located in the United States, and an endowment and foundation solution for not-for-profit organizations located in the United States. Clients can outsource their entire investment management needs and the administration for defined benefit, defined contribution, funded welfare and non-qualified deferred compensation plans as well as the administration of endowment and foundation asset pools.

The outsourcing program provides a strategic platform integrating the Manager-of-Managers investment process, plan administration services, and consulting services. Plan administration services include trustee, custodial, benefit payment services, record-keeping services, and donor administration. Consulting services include actuarial services, asset liability modeling, and the customization of an asset allocation plan that is designed to meet long-term objectives.

By outsourcing retirement plan services, we believe clients benefit from an investment approach which is built around an investment plan designed to meet the client's long-term needs, and an investment process that removes the responsibility of manager selection, is designed to reduce business risk, provide ongoing due diligence, and increase operational efficiency.

Fees are primarily earned as a percentage of average assets under management. At December 31, 2005, our primary client base consisted of approximately 330 clients. The principal competitor for this segment is Frank Russell Company, a subsidiary of Northwestern Mutual.

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Money Managers

The Money Managers segment offers fund investment processing and institutional and separate account operational outsourcing solutions to traditional investment managers 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. Investment managers can outsource to us the back-office operations associated with operating an investment fund. By outsourcing fund and investment processing services, we believe investment managers benefit from reduced risk, improved accuracy, and receive tools to better manage their business.

Contracts for our fund and investment processing solutions generally have terms ranging from one to five years. Fees are primarily earned as a percentage of average assets under management and administration. At December 31, 2005, we provided our fund processing solutions to approximately 155 investment management companies and alternative investment managers. Our principal competitors for this segment include The BISYS® Group, Inc., Citco, PFPC Worldwide Inc., a member of the PNC Financial Services Group, Inc., State Street Bank and Trust Company, and GlobeOp®.

Investments in New Businesses

The Investments in New Businesses segment represents several other business ventures intended to expand our investment management programs and services to private banks, high-net-worth investors, pension plans, governmental organizations, and private corporations in certain foreign countries. This segment also includes other new initiatives in U.S. markets.

Using the same asset management disciplines that have benefited U.S. clients, investment management solutions are tailored to the needs of institutional and affluent individual investors in offshore markets. Our approach is to offer a coherent global business solution consistent with our U.S. strategy of providing portfolio solution offerings rather than individual products. These portfolio solution offerings are focused on allocation of assets among the portfolio's specialist money managers, and direction and evaluation of the investment services provided by these selected managers. Additionally, our services include the delivery of local investment management as part of a portfolio solution, and local distribution and marketing.

We are also expanding our investment solutions to include affluent families who reside in the United States. The family wealth management solution offers flexible family-office type services through a highly personalized solution while utilizing the Manager-of-Managers investment process.

We have made, and will continue to make, significant investments in technology, marketing and infrastructure to develop and support our new business initiatives.

At December 31, 2005, there were approximately 220 clients for the global business and approximately 100 for the family wealth solution. Principal competitors for the global business are Frank Russell Company and Northern Trust. The principal competitors for the family wealth solution are diversified financial services providers focused on the high-net-worth and ultra-high-net-worth market.

Business Segment Restructuring

Effective January 1, 2006, the structure of our business segments will be changing. The following business lines will move from one business segment to another: the global institutional business of the Investments in New Businesses segment will move to the Enterprises segment, the franchise offering business of the Investment Advisors segment will move to the Investments in New Businesses segment, and the mutual fund processing business of the Private Banking & Trust segment will move to the Money Managers segment.

Our strategic goal is to expand and deliver all of our business solutions globally. Originally, business segments were organized around our operations in the United States, and our non-U.S. operations were included in the Investments in New Businesses segment. As our non-U.S. businesses mature and our business solutions gain acceptance in offshore markets, we will consolidate the U.S. and non-U.S. activity into one globally-managed business segment. Our global institutional solution has reached this point and, therefore, we will move this business from the Investments in New Businesses segment to the Enterprises segment.

Within the Investment Advisors segment, our advisor clients could enter into fundamentally different business relationships with us. Those advisors in the SEI Wealth Network® could partner with us for many activities, including the adoption of a single, uniform end-to-end client process and the use of a common end-client solution set. Our other advisor clients enter into a more traditional relationship with separate fee structures and they retain more discretion over the end-client process and end-client deliverables. Accordingly, these two groups of advisor

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clients seek different services from us. In order to achieve focus on each of these efforts and in recognition of their different needs, we will separate those advisors who are part of the SEI Wealth Network® from our traditional advisors and consolidate them with other wealth initiatives included in the Investments in New Businesses segment.

Also, our current bank clients who utilize our registered mutual fund processing solutions included in the Private Banking and Trust segment will be reported in the Money Mangers segment. We believe this will enable us to deliver a more consistent solution to all fund processing clients leveraging our domain expertise.

As a result of these changes, our business segments in 2006 will be:

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

Investment Advisors – provides investment management programs to affluent investors through a network of independent registered investment advisors, financial planners, and other investment professionals in the United States;

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

Money Mangers – provides fund investment processing and institutional and separate account operational outsourcing solutions to banks, investment managers and mutual fund companies in the United States and to investment managers worldwide of alternative asset classes such as hedge funds, fund of funds, and private equity funds; and

Investments in New Businesses – provides investment management programs 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 the SEI Wealth Network®.

Finally, we are evaluating the requirement to consolidate the accounts of the general partnership of LSV Asset Management (LSV), formerly an unconsolidated affiliate. Due to the unsecured guaranty agreement described below and other elements of our relationship, we may begin to report our interest in LSV as a separate business segment in 2006. Also as a result of the agreement, we may be required to consolidate the accounts of LSV Employee Group, LLC (LSV Employee Group), a limited liability company which is owned by certain current employees of LSV and holds an interest in the partnership.

In 2006, prior year amounts, as required, will be restated to conform to the restructured business segments.

Other

We maintain an interest in the general partnership LSV Asset Management, or LSV. LSV is a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies. LSV is a value-oriented, contrarian money manager offering a deep-value investment alternative utilizing a proprietary equity investment model to identify securities generally considered to be out of favor by the market. LSV is currently the specialist advisor to a number of our equity mutual funds. In addition, LSV is a portfolio manager to a portion of our global investment products. At December 31, 2005, LSV managed approximately \$51.8 billion in total assets, of which \$2.3 billion were assets in our mutual funds. We account for LSV using the equity method of accounting. At December 31, 2005, our interest in LSV was approximately 43 percent of the partnership's total interests. Our portion of LSV's net operating income was \$74.8 million in 2005, \$45.7 million in 2004, and \$22.5 million in 2003.

On January 24, 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. Due to this transaction and other elements of our relationship with LSV, we may be required to report the accounts of LSV and LSV Employee Group as consolidated subsidiaries. If the accounts of LSV are consolidated, the amount of ownership of the other existing partners of LSV will be reflected as minority interests in our financial statements and the Company's interest in the partnerships will be reported as a separate segment along with our other five segments (See Notes 1 and 14 to the Consolidated Financial Statements).

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Research and Development

We are devoting significant resources to research and development, including expenditures for new technology platforms, enhancements to existing technology platforms, and new investment products and services. We spent approximately \$126.7 million in 2005, \$95.0 million in 2004, and \$56.6 million in 2003, of which we capitalized approximately \$67.6 million in 2005, \$37.0 million in 2004, and \$10.4 million in 2003 relating to the development of new technology platforms. Total research and development expenditures as a percentage of sales were 16.4 percent in 2005, 13.7 percent in 2004, and 8.9 percent in 2003.

System requirements to satisfy the needs of the financial services industry are complex, substantial and continually evolving for a number of reasons, including, increased trading volume, introduction of new investment alternatives, changes in technology, changes in laws and regulations, and increased competition. We believe service to existing and potential clients is enhanced by substantial investments to improve current software products and to develop new products and services for the financial services industry. Using a combination of SEI professionals and partner firms to accomplish the design, development, and enhancement of our software products, we will continue to emphasize the importance of research and development to enhance our competitive position in the industry.

A significant portion of our research and development spending is related to building our Global Wealth Platform. It is our intention for this platform to be used by all of our business segments to manage all of our client processes. The platform will consist of various components, each offering different capabilities and functionality, which will be integrated into a single platform that provides straight through business processing. It will handle most front, middle and back-office operations. The front-end components will be used by our Trust Company to manage all middle-office operations and by our clients to manage client administration and portfolio management. The back-office components will streamline all investment related activities, eliminate many manual processes, and perform trade order execution and securities settlement activities.

We expect the Global Wealth Platform to enable our entry into the large European bank market, improve our competitive position in the U.S. market, facilitate the transition of the U.S. bank market from ASP to BSP services and enhance the client experience for our advisor clients. We plan to first implement the new platform for global private banks that currently use our investment processing services. In 2006, our advisor clients will begin using a limited version of the front-end components to manage client administration.

Marketing and Sales

Our business solutions are directly marketed to potential clients in our target markets. We employ approximately 100 sales representatives who operate from offices located throughout the United States, Canada, western Europe, South Africa, Asia and other locations.

Customers

In 2005, no single customer accounted for more than ten percent of revenues in any business segment.

Personnel

At January 31, 2006, we had 2,073 full-time and 68 part-time employees. None of our employees is unionized. Management considers employee relations to be generally good.

Regulatory Considerations

Our principal wholly-owned subsidiaries are SEI Investments Distribution Co., or SIDCO, SEI Investments Management Corporation, or SIMC, and SEI Private Trust Company, or SPTC. SIDCO is a broker-dealer registered with the SEC under the Securities and Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. SIMC is an investment advisor registered with the SEC under the Investment Advisers Act of 1940. SPTC is a limited purpose federal thrift chartered and regulated by the United States Office of Thrift Supervision. In addition, various SEI subsidiaries are subject to the jurisdiction of regulatory authorities in Canada, the United Kingdom, the Republic of Ireland and other foreign countries.

SIDCO and SIMC are subject to various federal and state laws and regulations that grant supervisory agencies, including the SEC, broad administrative powers. In the event of a failure to comply with these laws and regulations, the possible sanctions that may be imposed include the suspension of individual employees, limitations on the permissibility of SIDCO, SIMC, SEI, and our other subsidiaries to engage in business for specified periods of time, the revocation of applicable registration as a broker-dealer or investment advisor, as the

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case may be, censures, and fines. SPTC and SEI Trust Company, a state chartered trust company, are subject to laws and regulations imposed by federal and state banking authorities. In the event of a failure to comply with these laws and regulations, restrictions, including revocation of applicable banking charter, may be placed on the business of these companies. Additionally, the securities and banking laws applicable to us and our subsidiaries provide for certain private rights of action that could give rise to civil litigation. Any litigation could have significant financial and non-financial consequences including monetary judgments and the requirement to take action or limit activities that could ultimately affect our business.

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. Changes in the regulation of commission recapture or soft dollar payment arrangements could affect sales of some services, primarily our brokerage services.

Our bank clients are subject to supervision by federal and state banking authorities concerning the manner in which such clients purchase and receive our products and services. Our plan sponsor clients are subject to supervision by the Department of Labor and compliance with employee benefit regulations. Investment advisor and broker-dealer clients are regulated by the SEC and state securities authorities. Existing or future regulations applicable to our clients may affect our clients' purchase of our products and services.

In addition, see the discussion of governmental regulations in Item 1A "Risk Factors" for a description of the risks that proposed regulatory changes may present for our business.

Available Information

We maintain a website at www.seic.com and make available free of charge through the Investor Information section of this website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We include our website in this Annual Report on Form 10-K only as an inactive textual reference and do not intend it to be an active link to our website. The material on our website is not part of this Annual Report on Form 10-K.

Item 1A. Risk Factors.

We believe that the risks and uncertainties described below are those that impose the greatest threat to the sustainability of our business. However, there are other risks and uncertainties that exist that may be unknown to us or, in the present opinion of our management, do not currently pose a material risk of harm to us. The risk and uncertainties facing our business, including those described below, could materially adversely affect our business, results of operations, financial condition and liquidity.

Our revenues and earnings are affected by changes in the capital markets. A significant portion of our revenues are asset-based fees, which are derived from the assets we manage and administer. Economic uncertainty and volatile capital markets may influence an investor's decision to invest in and maintain an investment in a mutual fund or other investment product. As a result, the value of the assets we manage and administer could fluctuate and cause a reduction in our revenues and earnings.

We are exposed to product development risk. We continually strive to increase revenues and meet our customers' needs by introducing new products and services. As a result, we are subject to product development risk, which may result in loss if we are unable to develop and deliver fully functional products to our target markets that address our clients' needs and that are developed on a timely basis and reflect an attractive value proposition. Our spending related to developing new products is for the purpose of enhancing our competitive position in the industry. A significant portion of this spending has been capitalized. In the event that we fail to develop products or services at an acceptable cost or on a timely basis or if we fail to deliver functional products and services which are of sound, economic value to our clients and our target markets, or an inability to support the product in a cost-effective manner, we could suffer financial loss.

Poor fund performance may affect our revenues and earnings. Our ability to maintain our existing clients and attract new clients may be negatively affected if the performance of our mutual funds and other investment products, relative to market conditions and other comparable competitive investment products, is lower. Investors may decide to place their investable funds elsewhere which would reduce the amount of assets we manage resulting in a decrease in our revenues.

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Consolidation within our target markets may affect our business. Merger and acquisition activity within our target markets is a major strategic issue for us. Consolidations between banks and other financial institutions could reduce our existing client base and the number of potential clients. This activity may also cause larger institutions to internalize some or all of our services. These factors may negatively impact our ability to generate future growth in revenues and earnings.

Our business is subject to extensive governmental regulation. Our various business activities are conducted through entities which may be registered with the SEC as an investment advisor, 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. The SEI Wealth Network® offering is registered as a “franchise” offering with the Federal Trade Commission and numerous state bodies. Advisors who participate in this network may affiliate with SEI as agents under relevant broker-dealer and insurance regulations. Many of our products, services and 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 our business. We have responded and are currently responding to various regulatory requests and are continually implementing changes and reviewing our compliance procedures and business operations.

We are exposed to systems and technology risks. Through our proprietary systems, we maintain and process data for our clients that is critical to their business operations. An unanticipated interruption of service may have significant ramifications, such as lost data, damaged software codes, or inaccurate processing of transactions. As a result, the costs necessary to rectify these problems may be substantial.

We are exposed to data security risks. A failure to safeguard the integrity and confidentiality of client data from the infiltration by an unauthorized user that is either stored on or transmitted between our proprietary systems or to other third party service provider systems, may lead to modifications or theft of critical and sensitive data pertaining to our clients. The costs incurred to correct client data and prevent further unauthorized access could be extensive.

We are dependent upon third party approvals. Many of the investment advisors through which we distribute our investment offerings are affiliated with independent broker-dealers or other networks, which have regulatory responsibility for the advisor’s practice. As part of the regulatory oversight, these broker-dealers or networks must approve the use of our investment products by affiliated advisors within their networks. Failure to receive such approval, or the withdrawal of such approval, could adversely affect the marketing of our investment products.

We are exposed to operational risks. Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, business disruptions and inadequacies or breaches in our internal control processes. We operate different businesses in diverse markets and are reliant on the ability of our employees and systems to process large volumes of transactions often within short time frames. In the event of a breakdown or improper operation of systems, human error or improper action by employees, we could suffer financial loss, regulatory sanctions or damage to our reputation. In order to mitigate and control operational risk, we continue to enhance policies and procedures that are designed to identify and manage operational risk.

We are dependent upon third-party service providers in our operations. We utilize numerous third-party service providers in our operations, in the development of new products, and in the maintenance of our proprietary systems. A failure by a third-party service provider could expose us to an inability to provide contractual services to our clients in a timely basis. Additionally, if a third-party service provider is unable to provide these services, we may incur significant costs to either internalize some of these services or find a suitable alternative.

Currency fluctuations could negatively affect our future revenues and earnings as our business grows globally. We operate and invest globally to expand our business into foreign markets. Our foreign subsidiaries use the local currency as the functional currency. As these businesses evolve, our exposure to changes in currency exchange rates may increase. Adverse movements in currency exchange rates may negatively affect our operating results, liquidity and financial condition.

We rely on our executive officers and senior management. Most of our executive officers and senior management personnel do not have employment agreements with us. The loss of these individuals may have a material adverse affect on our future operations.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters is located in Oaks, Pennsylvania and consists of eight buildings situated on approximately 90 acres. We own and operate the land and buildings, which encompass approximately 400,000 square feet of office space and 34,000 square feet of data center space. We are currently expanding these facilities by constructing an additional building to encompass 83,000 square feet and a new parking facility. We anticipate this project will be completed in early 2007. We lease other offices which aggregate 64,000 square feet. We also own a 3,400 square foot condominium that is used for business purposes in New York, New York.

Item 3. Legal Proceedings.

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

In April, 2005, the Company and a subsidiary were named as defendants in a complaint (the "Vermeg Complaint") filed by Vermeg Services S.A.R.L. ("Vermeg"), a Tunisian company, in the United States District Court for the Eastern District of Pennsylvania. The subsidiary of the Company terminated a software license and services contract with Vermeg in March, 2005 citing failure of the Vermeg software to meet acceptance and performance criteria under the contract. The Vermeg Complaint sought monetary damages which it alleged arose out of the purported breach of such contract by the Company and its subsidiary as well as various other relief arising from the alleged misappropriation of Vermeg software and related information that Vermeg alleged was proprietary to Vermeg. In December, 2005, the Company entered into an agreement with Vermeg to settle the complaint. As part of the settlement and mutual release agreement, the Company made a one-time payment, which was expensed in the fourth quarter 2005, to Vermeg in the amount of \$4.25 million. The payment was for services previously rendered to the Company and for a perpetual pre-paid license to use certain Vermeg technology.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of 2005.

Executive Officers of the Registrant

Information about our executive officers is contained in Item 10 of this report and is incorporated by reference into this Part I.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Price Range of Common Stock and Dividends:

Our common stock is traded on The NASDAQ National Market under the symbol "SEIC." The following table shows the high and low sales prices for our common stock as reported by The NASDAQ National Market and the dividends declared on our common stock for the last two years. Our Board of Directors intends to declare future dividends on a semiannual basis.

<u>2005</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
First Quarter	\$42.00	\$35.48	\$ —
Second Quarter	38.75	31.68	.11
Third Quarter	40.70	35.43	—
Fourth Quarter	42.38	34.97	.11
<u>2004</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
First Quarter	\$36.37	\$30.21	\$ —
Second Quarter	33.70	26.82	.10
Third Quarter	35.00	28.37	—
Fourth Quarter	43.43	33.20	.10

As of February 15, 2006, we estimate that we had approximately 580 shareholders of record.

Issuer Purchases of Equity Securities:

Our Board of Directors has authorized the repurchase of up to \$1.05 billion of our common stock, including an additional authorization of \$50.0 million on January 30, 2006. Currently, there is no expiration date for our common stock repurchase program.

Information regarding the repurchase of common stock during the three months ended December 31, 2005 is:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</u>
October 1 – 31, 2005	—	—	—	\$ 37,074,000
November 1 – 30, 2005	169,000	39.41	169,000	30,414,000
December 1 – 31, 2005	741,000	38.36	741,000	1,989,000
Total	<u>910,000</u>	<u>38.55</u>	<u>910,000</u>	

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(In thousands, except per-share data)

This table presents selected consolidated financial information for the five-year period ended December 31, 2005. This data should be read in conjunction with the financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

Year Ended December 31,	2005	2004	2003	2002	2001
Revenues	\$ 773,007	\$ 692,269	\$ 636,233	\$ 629,593	\$ 658,013
Expenses:					
Operating and development	393,954	321,298	283,624	270,869	298,728
Sales and marketing	133,202	131,368	120,813	126,721	152,642
General and administrative	33,898	30,153	25,615	22,184	23,457
Income from operations	211,953	209,450	206,181	209,819	183,186
Equity in the earnings of unconsolidated affiliate	74,818	45,711	22,461	12,652	10,342
Net gain (loss) on investments	87	3,848	(6,927)	(2,360)	—
Interest income	8,367	4,545	4,363	5,200	6,945
Interest expense	(1,524)	(2,112)	(2,303)	(2,263)	(2,149)
Other income	1,508	3,689	509	—	—
Income before income taxes	295,209	265,131	224,284	223,048	198,324
Income taxes	106,865	96,110	81,303	82,528	73,380
Net income	188,344	169,021	142,981	140,520	124,944
Basic earnings per common share	\$ 1.88	\$ 1.63	\$ 1.36	\$ 1.30	\$ 1.15
Shares used to calculate basic earnings per common share	100,371	103,399	105,173	108,330	108,596
Diluted earnings per common share	\$ 1.83	\$ 1.60	\$ 1.32	\$ 1.25	\$ 1.09
Shares used to calculate diluted earnings per common share	103,138	105,866	108,137	112,803	114,810
Cash dividends declared per common share	\$.22	\$.20	\$.16	\$.12	\$.10
Financial Position as of December 31,					
Cash and cash equivalents	\$ 130,128	\$ 216,966	\$ 199,953	\$ 165,724	\$ 163,685
Total assets	\$ 657,147	\$ 615,475	\$ 592,629	\$ 464,147	\$ 460,916
Long-term debt (including current portion)	\$ 14,389	\$ 23,945	\$ 38,333	\$ 43,056	\$ 50,611
Shareholders' equity	\$ 421,688	\$ 403,942	\$ 363,773	\$ 290,007	\$ 270,593

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

(In thousands, except per-share data)

This discussion reviews and analyzes the consolidated financial condition at December 31, 2005 and 2004, the consolidated results of operations for the years ended December 31, 2005, 2004, and 2003, and other factors that may affect future financial performance. This discussion should be read in conjunction with the Selected Financial Data included in Item 6 of this Annual Report and the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report.

In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to the risks described in Item 1A of this Annual Report.

Overview

Our Business and Business Segments

We are a leading global provider of investment processing, fund processing, and investment management business outsourcing solutions that help corporations, financial institutions, financial advisors, and affluent families create and manage wealth. Our outsourcing business solutions consist mainly of investment processing, fund processing, and investment management. Investment processing fees are earned as monthly fees for contracted services including computer processing services, software licenses, and trust operations services, as well as transaction-based fees for providing securities valuation and trade-execution. Fund processing and investment management fees are earned as a percentage of average assets under management or administration. As of December 31, 2005, through our subsidiaries and partnerships in which we have a significant interest, we administer \$312.1 billion in mutual fund and pooled assets and manage \$148.5 billion in assets. Our partnership interest, LSV, represents \$47.8 billion of our total assets under management.

We conduct business through five business segments offering our business solutions to specific target markets. In 2005, these business segments were:

Private Banking and Trust – provides investment processing, fund processing, and investment management programs to banks and other trust institutions located in the United States and Canada and accounts for 37 percent of consolidated revenues in 2005;

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 and accounts for 27 percent of consolidated revenues in 2005;

Enterprises – provides investment management programs that offer retirement solutions to corporations, unions, municipalities, and hospitals, and an endowment solution for the not-for-profit market in the United States and accounts for 11 percent of consolidated revenues in 2005;

Money Managers – provides fund investment processing and institutional and separate account operational outsourcing solutions to traditional investment managers 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 and accounts for 11 percent of consolidated revenues in 2005; and

Investments in New Businesses – provides investment management programs and fund processing to investment advisors, corporations, and money managers located outside the United States and investment processing solutions to institutions in the United Kingdom and continental Europe. This segment also includes our investment programs offered to affluent families residing in the United States. This segment accounts for 14 percent of consolidated revenues in 2005.

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Recent Highlights

Our revenues for 2005 were \$773.0 million, with net income of \$188.3 million and diluted earnings per share of \$1.83. We believe the following items were significant to our business during 2005:

- Revenue growth was primarily driven by higher asset-based fees in our Investment Advisors, Enterprises and Investments in New Businesses segments due to capital market appreciation in 2004 and 2005. Stronger capital markets increased the value of assets we manage for our existing clients, improving our base revenues.
- New sales in our Enterprises, Money Managers and Investments in New Businesses segments also contributed to our revenue growth. We believe these sales of new business were due to the validation of new and existing strategies and solutions in our target markets.
- Revenues from fund processing fees in the Private Banking and Trust segment decreased \$12.9 million from the loss of fund processing bank clients. Certain of these client losses, however, caused a reduction in direct fund processing expenses and reduced the negative impact to our margins.
- Investment processing revenues in our Private Banking and Trust segment increased \$5.0 million due primarily to new sales and non-recurring project fees for our BSP solutions and the addition of a large bank client of our ASP solutions. This increase, however, was partially offset by the loss of a significant large bank client of our ASP solutions.
- In the Investment Advisors and Enterprises segments, revenues during the first half of 2005 were affected by the recognition on a gross basis of \$7.1 million of third party advisory fees related to our separate account program and pass-through fees associated with our 401(k) recordkeeping offering beginning in mid-2004. In the prior-year comparable period, these revenues were reported net of the costs, having the effect of increasing revenues and expenses by the same amount.
- Our growth in net income was primarily a result of our investment in LSV. LSV recorded significant growth in revenues and earnings, mainly attributed to new sales and capital market appreciation. We currently own a 43 percent interest in LSV. Our earnings from LSV grew \$29.1 million, or 64 percent, in 2005 as compared to the prior-year period.
- We continued to make significant expenditures for the development of our Global Wealth Platform as we progressed through the development phase of this project. The majority of these costs are eligible for capitalization; however, a portion is ineligible and is expensed as incurred. We capitalized \$67.6 million in 2005 as compared to \$37.0 million in 2004 in software development costs for this platform. We expect to incur significant development costs throughout 2006.
- It was determined that software purchased from Vermeg Services S.A.R.L. (Vermeg), a third party software vendor, intended for use in our Global Wealth Platform did not satisfy all of the expected functionality requirements. Prior capitalized development costs and associated unpaid liabilities were written-off, resulting in a net charge against earnings of \$1.7 million during 2005. Additionally, we recognized \$4.3 million in expense related to a litigation settlement with Vermeg. The payment was for services previously rendered to us and for a perpetual pre-paid license to use certain Vermeg technology to be used in the Global Wealth Platform. The total charge against earnings was \$6.0 million. This charge was allocated across all of our business segments, with the more significant portions going to Private Banking and Trust, Investment Advisors, and Investments in New Businesses.
- Consolidated operating margins declined due primarily to increased investments in the operational infrastructure necessary to deliver new company strategies and solutions. A substantial portion of these costs relate to personnel and third-party service providers.
- We continued our stock repurchase program and purchased approximately 4.4 million shares at an average price of approximately \$37 per share. This caused our diluted earnings per share to grow at a faster rate than our earnings.

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Forward Looking Information and Risk Factors

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 Item 1A "Risk Factors" of this Annual Report. The following items are, in our opinion, anticipated to occur in the next 12 to 18 months.

- We are currently in the development stage of building the Global Wealth Platform and expect the amount of spending and capitalization to continue throughout most of 2006 at a level generally consistent with 2005. We plan to implement the new platform later in 2006 or early 2007 to support global private banks that currently use our investment processing services. We expect to begin amortizing the new platform at the same time when the implementation occurs.
- We have been and will continue to be in an investment phase, which involves transforming our company from one that is product and services based to one that is solutions based. Each of our business segments has developed a new business model that is being deployed that will gradually move our clients to our new business solutions. We will continue to make substantial investments in operational infrastructure and technology to support the new business model of each segment.
- Employee stock options are a significant component of our overall compensation structure. The provisions contained in Statement of Financial Accounting Standards 123(R) are effective in the first quarter 2006 and require us to recognize expense associated with employee stock options. We expect expense from stock options to be approximately \$18.0 million for the year.
- In January 2006, we entered into an 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. Due to this transaction and other elements of our relationship, we may be required to include LSV and LSV Employee Group in our financial statements as fully consolidated entities and report our interest in LSV as a new segment in 2006. This will not affect net income but will affect our gross revenues and cost of operations.
- We began delivery of our SEI Advisor desktop technology to our investment advisor clients in January 2006. This technology is an early version of the front end of the Global Wealth Platform. We expect amortization expense to increase by approximately \$2.8 million in 2006 as a result of the implementation of this component.
- Our strategic goal is to build and deliver world-class business solutions globally. As areas of our non-U.S. business mature and our solutions prove themselves, we will consolidate this activity under a single globally managed segment. In keeping with this strategy, starting in 2006, we will consolidate all revenue and costs associated with our Enterprises segment and the global institutional business of our Investments in New Businesses segment under a single segment.
- Within the Investment Advisors segment, our advisor clients could enter into fundamentally different business relationships with us. Some advisors could partner with us for many activities while other advisor clients enter into a more traditional relationship with separate fee structures. Accordingly, these two groups of advisor clients seek different services from us. In order to achieve focus on each of these efforts and in recognition of the differing client needs, we are separating these business lines. In 2006, those advisors who partner with us for our life and wealth services will be consolidated with other wealth initiatives included in the Investments in New Businesses segment.
- We have made the decision to consolidate all registered mutual fund administration business in the Money Manager segment. Consequently, to enable us to deliver a consistent solution to all clients leveraging our domain expertise more effectively, we will move the revenue and costs associated with this business activity from the Private Banking and Trust segment to the Money Managers segment beginning in 2006.

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Results of Operations

Revenues, Expenses and Income from Operations by business segment for the year ended 2005 compared to the year ended 2004, and for the year ended 2004 compared to the year ended 2003 are:

Year Ended December 31,	2005	2004	Percent Change	2003	Percent Change
Revenues:					
Private Banking and Trust	\$281,810	\$290,605	(3)%	\$311,534	(7)%
Investment Advisors	205,652	180,351	14%	156,089	16%
Enterprises	87,677	69,816	26%	62,051	13%
Money Managers	87,595	76,907	14%	55,274	39%
Investments in New Businesses	110,273	74,590	48%	51,285	45%
Total revenues	773,007	692,269	12%	636,233	9%
Operating and development expenses:					
Private Banking and Trust	145,846	135,465	8%	148,102	(9)%
Investment Advisors	70,371	53,853	31%	41,471	30%
Enterprises	25,578	19,333	32%	14,983	29%
Money Managers	58,774	47,885	23%	32,852	46%
Investments in New Businesses	93,385	64,762	44%	46,216	40%
Total operating and development expenses	393,954	321,298	23%	283,624	13%
Sales and marketing expenses:					
Private Banking and Trust	35,871	40,613	(12)%	37,686	8%
Investment Advisors	24,737	27,814	(11)%	28,937	(4)%
Enterprises	21,608	18,435	17%	17,702	4%
Money Managers	14,365	14,359	—	13,317	8%
Investments in New Businesses	36,621	30,147	21%	23,171	30%
Total sales and marketing expenses	133,202	131,368	1%	120,813	9%
Income from business segments:					
Private Banking and Trust	100,093	114,527	(13)%	125,746	(9)%
Investment Advisors	110,544	98,684	12%	85,681	15%
Enterprises	40,491	32,048	26%	29,366	9%
Money Managers	14,456	14,663	(1)%	9,105	61%
Investments in New Businesses	(19,733)	(20,319)	(3)%	(18,102)	(12)%
Total income from business segments	245,851	239,603	3%	231,796	3%
General and administrative expenses	33,898	30,153	12%	25,615	18%
Income from operations	211,953	209,450	1%	206,181	2%
Other income, net	83,256	55,681	50%	18,103	208%
Income before income taxes	295,209	265,131	11%	224,284	18%
Income taxes	106,865	96,110	11%	81,303	18%
Net income	\$188,344	\$169,021	11%	\$142,981	18%
Diluted earnings per share	\$ 1.83	\$ 1.60	14%	\$ 1.32	21%

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Asset Balances

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

Asset Balances

(In millions)

	As of December 31,		
	2005	2004	2003
Assets invested in equity and fixed-income programs	\$ 74,178	\$ 63,353	\$ 50,225
Assets of unconsolidated affiliate invested in equity and fixed-income programs	47,781	32,556	15,666
Assets invested in collective trust programs	14,078	12,159	11,213
Assets invested in liquidity funds	12,501	12,322	13,494
Assets under management	148,538	120,390	90,598
Client proprietary assets under administration	163,526	167,637	163,243
Assets under management and administration	\$ 312,064	\$ 288,027	\$ 253,841

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

Consolidated

Our revenues increased \$80.7 million, or 12 percent, to \$773.0 million in 2005 compared to 2004, and increased \$56.0 million, or nine percent, to \$692.3 million in 2004 compared to 2003. The increase in revenues in both comparable periods was primarily driven by increased asset-based investment management fees from existing clients in our Investment Advisors, Enterprises and Investments in New Businesses segments due to capital market appreciation in 2004 and 2005. New sales in our Enterprises and Investments in New Businesses segments also contributed to growth in our asset-based investment management fees. Fund processing fees in our Money Managers segment increased in both comparable periods, mainly due to new client sales, but were substantially offset by reduced fund processing fees from banks clients because of the loss of large bank clients in 2003 and 2004. Brokerage fees declined in 2004 due to the recognition of significant non-recurring brokerage fees from manager transitions in 2003 and the diminishing demand for soft-dollar services by our bank clients.

Our income from operations increased \$2.5 million in 2005, or one percent, and increased \$3.3 million, or two percent, in 2004 compared to 2003. Operating margin declined to 27 percent in 2005 after declining to 30 percent in 2004 from 32 percent in 2003. The increase in operating income in both comparable periods was primarily attributable to an increase in revenues. Operating income and margins in both periods were negatively impacted by an increased level of investment spending related to our operational infrastructure to support new business solutions as well as our continued global expansion and life and wealth program development. We continued the development of the Global Wealth Platform. The majority of these costs were capitalized, however, a portion are not eligible and must be expensed in the current period. We increased the rate of spending in 2005 and 2004, as compared to prior year periods, for the development of the Global Wealth Platform. Operating income in 2005 was adversely affected by \$6.0 million related to the Vermeg settlement and the write-off of previously capitalized software development costs of Vermeg.

Other income includes our percentage of net earnings from our unconsolidated affiliate, realized gains and losses from available-for-sale securities and other investments, and interest income and expense. Other income increased \$27.6 million in 2005 and \$37.6 million in 2004 compared to the prior year periods. The increase in other income came from our unconsolidated affiliate, LSV, which increased \$29.1 million during 2005 and \$23.3 million during 2004 due to growth in assets under management from new business and improved capital markets. Other income also includes the gain associated with the sale of a small portion of our investment in

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LSV in 2004, of which we recognized approximately \$3.1 million in 2004 and \$1.2 million in 2005. The amount in 2005 was deferred until payments were received by the partnership from the partners who elected to finance a portion of their purchase price. We recognized \$3.8 million in net realized gains in 2004 and \$6.9 million in net realized losses in 2003 from available-for-sale securities and other investments. Net realized gains in 2005 were minimal.

Business Segments

Private Banking and Trust

<u>Year Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>	<u>2003</u>	<u>Percent Change</u>
Revenues:					
Investment processing fees	\$230,179	\$225,229	2%	\$229,044	(2)%
Fund processing fees	17,295	30,177	(43)%	43,464	(31)%
Investment management fees	34,336	35,199	(2)%	39,026	(10)%
Total revenues	<u>\$281,810</u>	<u>\$290,605</u>	(3)%	<u>\$311,534</u>	(7)%

Revenues declined \$8.8 million, or three percent, in 2005 compared to 2004, and \$20.9 million, or seven percent, in 2004 compared to 2003. Revenues during 2005 and 2004 were primarily affected by:

- The loss of large fund processing bank clients in 2004 and 2003;
- The deconversion of a large investment processing bank client, net of any related non-recurring fees;
- Lower investment management fees from bank clients due to the discontinuation of our overnight securities repurchase offering in late 2003; partially offset by
- An increase in investment processing recurring revenues from the addition of a large investment processing client of our ASP solutions and two large clients adopting our BSP model in 2005; and
- Cross-sales to existing clients from new product offerings.

Operating margins were 36 percent in 2005, 39 percent in 2004, and 40 percent in 2003. Operating income decreased \$14.4 million, or 13 percent, in 2005 compared with 2004, and \$11.2 million, or nine percent, in 2004, compared with 2003. Operating income during 2005 and 2004 was primarily affected by:

- Decreased revenues in 2004 and 2005;
- Increased personnel and other operational costs necessary to deliver business outsourcing solutions;
- Increased non-capitalized technology spending related to the development of the Global Wealth Platform;
- The recognition of approximately \$2.7 million in expense associated with the Vermeg settlement and the write-off of previously capitalized software development costs of Vermeg in 2005;
- A one-time reduction in direct expenses from the loss of a large bank client in the third quarter of 2004; partially offset by
- Reduced sales compensation expenses due to the timing of sales events;
- Non-recurring costs in 2004 associated with the relocation of our data center processing facility; and
- Decreased expenses due to the loss of large fund processing bank clients.

Investment Advisors

Revenues increased \$25.3 million, or 14 percent, in 2005 compared with 2004, and \$24.3 million, or 16 percent, in 2004 compared with 2003. Revenues during 2005 and 2004 were primarily affected by:

- Increased investment management fees from existing clients due to the appreciation of assets under management caused by capital market appreciation during 2004 and 2005; and
- The recognition on a gross basis of \$5.4 million in the first half of 2005 of pass-through revenue associated with our 401(k) recordkeeping offering and third party advisory fees related to our separate account program, which had the effect of increasing revenues and expenses by the same amount.

Operating margins were 54 percent in 2005 and 55 percent in 2004 and 2003. Operating income increased \$11.9 million, or 12 percent, in 2005 compared with 2004, and \$13.0 million, or 15 percent, in 2004 compared with 2003. Operating income during 2005 and 2004 was primarily affected by:

- An increase in revenues; and
- One-time costs of \$0.8 million in connection with the migration of client data to a new platform for processing third party mutual funds in 2004; partially offset by

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- Increased non-capitalized investment spending associated with the development of our Global Wealth Platform;
- Increased personnel costs related to investment management operations;
- The recognition of approximately \$1.5 million in expense associated with the Vermeg settlement and the write-off of previously capitalized software development costs of Vermeg in 2005; and
- The recognition of pass-through revenues and expenses mentioned above, which had the effect of increasing revenues and expenses by the same amount, and negatively impacting operating margin.

Enterprises

Revenues increased \$17.9 million, or 26 percent, in 2005 compared with 2004, and \$7.8 million, or 13 percent, in 2004 compared with 2003. Revenues during 2005 and 2004 were primarily affected by:

- Asset funding from new sales of our retirement solutions, mainly to large corporations;
- Increased assets under management from existing clients caused by capital market appreciation during 2004 and 2005; and
- The recognition on a gross basis of \$1.7 million in the first half of 2005 of pass-through revenue associated with our 401(k) recordkeeping offering, which had the effect of increasing revenues and expenses by the same amount.

Operating margins were 46 percent in 2005 and 2004, and decreased slightly from 47 percent in 2003. Operating income increased \$8.4 million, or 26 percent, in 2005 compared with 2004, and \$2.7 million, or nine percent, in 2004 compared with 2003. Operating income during 2005 and 2004 was primarily affected by:

- An increase in revenues; less
- Increased personnel costs related to investment management operations; and
- The recognition of pass-through revenues and expenses mentioned above, which had the effect of increasing revenues and expenses by the same amount and negatively impacting operating margin.

Money Managers

Revenues increased \$10.7 million, or 14 percent, in 2005 compared with 2004 and \$21.6 million, or 39 percent, in 2004 compared with 2003. Revenues during 2005 and 2004 were primarily affected by:

- Sales of new business of our alternative investments processing solutions and, to a lesser extent, our traditional fund processing solutions;
- Sales of new business in 2005 of our separately managed account processing solutions; and
- Sales of additional products to our existing clients; partially offset by
- Client losses; and
- A \$0.6 million non-recurring fee received by us from the buyout of an existing contract in the third quarter of 2004.

Operating margins decreased to 17 percent in 2005 as compared to 19 percent in 2004 and increased from 16 percent in 2003. Operating income decreased slightly in 2005 compared with 2004 and increased \$5.6 million, or 61 percent, in 2004 compared with 2003. Operating income during 2005 and 2004 was primarily affected by:

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

Investments in New Businesses

Revenues increased \$35.7 million, or 48 percent, in 2005 compared with 2004 and \$23.3 million, or 45 percent, in 2004 compared with 2003. Revenues during 2005 and 2004 were primarily affected by:

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

Losses from operations decreased slightly in 2005 compared with 2004 and increased by \$2.2 million in 2004 compared with 2003. Losses from operations during 2005 and 2004 were primarily affected by:

- An increase in revenues; partially offset by

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- Increased non-capitalized investment spending associated with the development of our Global Wealth Platform;
- Increased personnel and other operational costs necessary to deliver global business outsourcing solutions; and
- The recognition of approximately \$1.1 million in expense associated with the Vermeg settlement and the write-off of previously capitalized software development costs of Vermeg in 2005.

Other

General and administrative expenses

Year Ended December 31,	2005	2004	Percent Change	2003	Percent Change
General and administrative expenses	\$33,898	\$30,153	12%	\$25,615	18%

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

Other Income

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

Year Ended December 31,	2005	2004	Percent Change	2003	Percent Change
Equity in the earnings of unconsolidated affiliate	\$74,818	\$45,711	64%	\$22,461	104%
Net gain (loss) from investments	87	3,848	(98)%	(6,927)	N/A
Interest income	8,367	4,545	84%	4,363	4%
Interest expense	(1,524)	(2,112)	(28)%	(2,303)	(8)%
Other income	1,508	3,689	(59)%	509	N/A
Total other income, net	\$83,256	\$55,681	50%	\$18,103	208%

Equity in the earnings of unconsolidated affiliate on the accompanying Consolidated Statements of Operations includes our less than 50 percent ownership in the general partnership of LSV. The increase in LSV's net earnings is due to an increase in assets under management mainly from new business. Other income includes the recognition of \$1.2 million and \$3.1 million in 2005 and 2004, respectively, of a gain related to the sale of a small portion of our equity interest in LSV to certain other partners of LSV during 2004 (See Note 4 to the Consolidated Financial Statements).

Net gain (loss) from investments consists of:

Year Ended December 31,	2005	2004	2003
Net realized gain from sales of marketable securities	\$ 595	\$ 5,333	\$ 816
Increase (decrease) in fair value of derivative financial instruments	(525)	(1,493)	(6,031)
Other-than-temporary declines in market value	—	—	(595)
Other gains (losses)	17	8	(1,117)
Net gain (loss) on investments	\$ 87	\$ 3,848	\$(6,927)

Derivative financial instruments are used to minimize the price risk associated with changes in the fair value of certain marketable securities. These derivative financial investments did not

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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. Our decision to enter into derivative financial instruments that do not qualify for hedge accounting may cause volatility in quarterly earnings.

We perform a review of all investments in marketable securities on a quarterly basis with regard to impairment. Factors considered in determining other-than-temporary impairment are significant or prolonged declines in the price of investments based on available market prices. Additional consideration is given to the ability to recover the carrying amount of the investment. We currently have a single investment in a Company-sponsored mutual fund held for purposes of satisfying certain regulatory requirements for our thrift operations. This mutual fund invests primarily in federal agency mortgage-backed securities. This investment has an unrealized loss of approximately \$1.3 million but has a positive average annual return and pays dividends on a monthly basis.

Other gains (losses) in 2003 include the write-down of approximately \$1.2 million of an equity investment carried at cost in a private technology firm.

Interest income is earned based upon the amount of cash invested daily. Fluctuations in interest income recognized for one period in relation to another are due to changes in the average cash balance invested for the period and/or changes in interest rates. The increase in interest income in 2005 and 2004 was primarily due to an increase in interest rates and investments of cash equivalents into higher-yielding investment vehicles.

Interest expense is directly attributable to our long-term debt and other borrowings. Interest expense in 2005 and 2004 decreased due to the lower principal balances of debt outstanding.

Income Taxes

Our effective tax rate was 36.20 percent in 2005 and 36.25 percent in both 2004 and 2003. The rate reduction in 2005 compared to 2004 was due to a favorable resolution of a routine audit conducted by the Internal Revenue Service on previously filed tax returns.

Liquidity and Capital Resources

<u>Year Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net cash provided by operating activities	\$ 214,437	\$ 186,510	\$ 178,003
Net cash used in investing activities	(116,256)	(11,535)	(39,947)
Net cash used in financing activities	(185,019)	(157,962)	(103,827)
Net increase in cash and cash equivalents	(86,838)	17,013	34,229
Cash and cash equivalents, beginning of year	216,966	199,953	165,724
Cash and cash equivalents, end of year	\$ 130,128	\$ 216,966	\$ 199,953

Cash requirements and liquidity needs are expected to be 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 compliance with certain covenants set forth in the agreement (See Note 5 to the Consolidated Financial Statements). At December 31, 2005, our unused sources of liquidity consisted of unrestricted cash and cash equivalents of \$130.1 million and the credit facility of \$200.0 million.

Net cash provided by operating activities grew \$27.9 million in 2005 and \$8.5 million in 2004 from the prior comparable years primarily from an increase in income. The increase in both periods also included additional deferred taxes, mainly due to the higher amount of software development costs eligible for capitalization and currently deductible for tax purposes. Net cash from operating activities in 2005 and 2004 was negatively affected by a decline in the tax benefit received from stock option exercises. The net change in our working capital accounts negatively affected net cash from operating activities in 2005, 2004, and 2003.

Net cash used in investing activities includes the capitalization of costs incurred in developing computer software, purchases and sales of marketable securities, and capital expenditures. Net cash used in investing activities increased \$104.7 million in 2005 and decreased \$28.4 million in 2004 as compared to the prior year period.

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During the past several years, we have invested in the development of our new Global Wealth Platform. Many of these expenditures were not eligible for capitalization until 2004. In 2004, a larger portion of our expenditures were for development rather than research and design and were eligible for capitalization under accounting rules. We continued to make substantial investments in 2005 to further develop the Global Wealth Platform. The increase in capitalized cost in 2005 compared to 2004 was primarily due to a higher level of spending. Capitalized software expenditures were \$67.6 million in 2005, \$37.0 million in 2004 and \$10.4 million in 2003 (See Note 1 to the Consolidated Financial Statements). We expect this level of spending and capitalization to continue through 2006 until the platform is fully developed and ready for use.

We had \$33.2 million in net purchases of marketable securities in 2005 versus \$33.3 million in net redemptions in 2004. In 2003, we had net purchases of marketable securities of \$5.1 million. Purchases of marketable securities in 2005 mainly comprised additional investments made in a company-sponsored mutual fund for regulatory compliance purposes and investments to reposition certain cash equivalents into higher-yielding securities. Capital expenditures in 2005 primarily include computer systems and equipment to support our ongoing operations. During 2005, we began construction of an additional building and parking facility at our corporate headquarters. The total cost of the expansion is estimated to be at least \$24 million and is expected to be completed sometime in early 2007.

Net cash used in financing activities primarily includes the repurchase of our common stock, dividend payments, and principal payments on our debt. Our board of directors has authorized the repurchase of our common stock of up to \$1.05 billion, which includes an additional authorization of \$50.0 million on January 30, 2006. As of February 15, 2006, we still had \$52.0 million of authorization remaining for the purchase of our common stock under this program (See Note 7 to the Consolidated Financial Statements).

The following table lists information regarding repurchases of our common stock during 2005, 2004, and 2003:

<u>Year</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid per Share</u>	<u>Total Cost</u>
2005	4,443,000	\$ 36.94	\$164,118
2004	4,127,000	32.83	135,509
2003	3,536,000	26.99	95,453

Cash dividends paid were \$21.3 million or \$.21 per share in 2005, \$19.7 million or \$.19 per share in 2004 and \$13.7 million or \$.13 per share in 2003. Our board of directors declared a cash dividend of \$.11 per share on December 14, 2005. The dividend was paid on January 20, 2006 for \$10.9 million.

Principal payments on our long-term debt were \$9.6 million in 2005, \$14.4 million in 2004 and \$12.0 million in 2003. Our long-term debt is subject to various covenants contained in each lending agreement. Currently, these covenants do not negatively affect our liquidity.

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; future dividend payments; expansion of our corporate headquarters; 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 interests of LSV.

We and certain other investors are partners of LSV. Certain 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 certain 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 certain 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.

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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 or 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.

Other than the Guaranty Agreement previously described, our off-balance sheet commitments are generally limited to future payments under non-cancelable operating leases for facilities, data processing equipment, and software and other maintenance agreements.

Contractual Obligations

The following table lists all of our future commitments:

	Total	2006	2007	2008 to 2010	2011 and Thereafter
Line of credit and long-term debt (a)	\$ 16,850	\$ 6,412	\$ 4,628	\$ 3,712	\$ 2,098
Operating leases and maintenance agreements (b)	37,650	9,439	7,036	7,535	13,640
Derivative securities (c)	11,821	—	11,821	—	—
Other commitments	636	318	318	—	—
Total	<u>\$ 66,957</u>	<u>\$ 16,169</u>	<u>\$ 23,803</u>	<u>\$ 11,247</u>	<u>\$ 15,738</u>

(a) – Amounts include estimated commitment fees and interest. See Notes 5 and 6 to the Consolidated Financial Statements.

(b) – See Note 9 to the Consolidated Financial Statements.

(c) – See Note 1 to the Consolidated Financial Statements.

Critical Accounting Policies

The accompanying consolidated financial statements and supplementary information were prepared in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are discussed in Note 1 to the Consolidated Financial Statements. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets and liabilities. Materially different financial results can occur as circumstances change and additional information becomes known. We believe that the following accounting policies require extensive judgment by our management to determine the recognition and timing of amounts recorded in our financial statements.

Revenue Recognition:

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 us in advance of the performance of services is deferred and recognized as revenue when earned. Our principal sources of revenues are: (1) information processing and software servicing fees that are recurring in nature and earned based on the number of trust accounts being serviced, transaction-based fees for providing securities valuation and trade-execution services and non-recurring project fees that are determined upon contractual agreements; and (2) asset management, administration and distribution fees calculated as a percentage of the total average daily net assets under management or administration. The majority of our revenues are based on contractual arrangements. Certain portions of our revenues require management's

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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.

Allowance for Doubtful Accounts:

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of some of our clients to make their scheduled payments. The allowance for doubtful accounts is based on the total amount of outstanding receivables and an aging analysis at each balance sheet date. Other factors are considered in determining the adequacy of the allowance for doubtful accounts, such as historical trends, the financial condition of our clients and other factors that may be deemed appropriate. Based upon this analysis, the allowance for doubtful accounts is adjusted to an amount that is sufficient to cover expected losses from doubtful accounts.

Investments Available-For-Sale:

We value our investments in marketable securities based on quoted market prices. We review our investments in marketable securities on a quarterly basis with regard to impairment. Factors considered in determining other-than-temporary impairment are significant or prolonged declines in the fair value of our investments, our ability and intent to retain the investment for a period sufficient to allow the value to recover, and the financial condition of the investment. After considering these factors, if we believe that a decline is other-than-temporary, the carrying value of the investment is written down to its fair value through current period earnings.

Computer Software Development Costs:

We utilize internally developed computer software as part of our product offering. In the development of a new software product, substantial consideration must be given by management to determine whether costs incurred are research and development costs, or internal software development costs eligible for capitalization. Management must consider a number of different factors during their evaluation of each computer software development project that includes estimates and assumptions. Costs considered to be research and development are expensed as incurred. After meeting certain requirements, internal software development costs are capitalized as incurred.

Income Tax Accounting:

The computation of our income tax expense requires the interpretation of complex tax laws and regulations in many taxing jurisdictions around the world. Actual income tax expense can differ significantly from our estimates.

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 and operating loss and tax credit carryforwards. We assess the recoverability of deferred tax assets based on our estimated future taxable income and tax strategies. We also recognize a liability for expected contingencies. We assess the liability based on our review of various tax issues and interpretations of tax law. Differences between our estimates and actual results could have a significant impact to our consolidated results of operations, financial position, or liquidity.

The assessment of critical accounting policies is not meant to be an all-inclusive discussion of the uncertainties to financial results that can occur from the application of the full range of our accounting policies. Materially different financial results could occur in the application of other accounting policies as well. Also, materially different results can occur upon the adoption of new accounting standards.

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New Accounting Pronouncements

Effective January 1, 2006, we will adopt the provisions in Statement of Financial Accounting Standards 123(R) (SFAS 123(R)), "Share Based Payment." SFAS 123(R) requires the cost of employee stock options be recognized in a company's financial statements. Pro-forma disclosure is no longer permitted. We will apply the modified prospective application transition method which permits a company to apply the standards prospectively only and does not require the restatement of prior period financial statements. Based on the amount of outstanding employee stock options at December 31, 2005, we have approximately \$70.6 million in total unrecognized compensation expense. We expect to recognize the compensation expense according to the following schedule:

<u>Period</u>	<u>Compensation Expense</u>
2006-2007	\$ 17,950
2008	10,900
2009	10,500
2010	8,300
2011	11,475
2012	11,475
Total	<u>\$ 70,600</u>

In December 2005, we accelerated 4.4 million options that were out-of-the money to eliminate \$44.5 million in compensation expense we would otherwise recognize with respect to these options.

See the discussion of New Accounting Pronouncements in Note 1 to the Consolidated Financial Statements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk - Our exposure to changes in interest rates primarily relates to our investment portfolio. 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 includes U.S. Treasury securities maturing within one year and a long-term fixed-income mutual fund principally invested in federal government agency securities. We place our investments in financial instruments that meet high credit quality standards. While changes in interest rates could decrease interest income, 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. The total of all of our foreign operations accounts for approximately 14 percent of total consolidated revenues. Also, most of our foreign operations match local currency revenues with local currency costs. Due to these reasons, we do not 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 December 31, 2005, we held derivative financial instruments with a notional amount of \$11.8 million and an expected maturity in 2007. Changes in the fair value of the derivative financial instruments are recognized in current period earnings, whereas, the change in the fair value of the investment is recorded on the balance sheet in other comprehensive income. Therefore, changes in the fair value of the derivative financial instrument and changes in the fair value of the investment are not recognized through earnings in the same period. We did not enter into or hold any derivative financial instruments for trading purposes during 2005 or 2004.

The current period earnings include losses of \$0.5 million and \$1.5 million in 2005 and 2004, respectively, relating to changes in the fair value of derivative financial instruments. The aggregate effect of a hypothetical ten percent change in the fair value of our investments would be:

<u>Investment</u>	<u>Hypothetical Change In Value</u>
Mutual Funds	\$ 4,395
Equities	1,182
	<u>\$ 5,577</u>

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

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Item 8. Financial Statements and Supplementary Data.

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All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of SEI Investments Company:

We have completed integrated audits of SEI Investments Company's December 31, 2005 and December 31, 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of its December 31, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of SEI Investments Company and its subsidiaries (the "Company") at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

[PricewaterhouseCoopers LLP](#)

Philadelphia, PA

March 16, 2006

[Table of Contents](#)**Consolidated Balance Sheets**
(In thousands)SEI Investments Company
and Subsidiaries

December 31,	2005	2004
Assets		
Current Assets:		
Cash and cash equivalents	\$ 130,128	\$ 216,966
Restricted cash	10,250	14,386
Receivables from regulated investment companies	30,558	29,688
Receivables, net of allowance for doubtful accounts of \$1,520 and \$1,800 (Note 2)	97,987	79,107
Deferred income taxes	7,318	5,892
Securities owned (Note 3)	19,709	—
Other current assets	10,026	9,640
Total Current Assets	305,976	355,679
Property and Equipment , net of accumulated depreciation and amortization of \$109,208 and \$100,524 (Note 2)	114,505	113,640
Capitalized Software , net of accumulated amortization of \$21,667 and \$19,325	116,670	55,830
Investments Available-for-Sale (Note 3)	54,632	39,817
Other Assets , net (Note 2)	65,364	50,509
Total Assets	\$ 657,147	\$ 615,475

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

[Table of Contents](#)**Consolidated Balance Sheets**
(In thousands, except par value)SEI Investments Company
and Subsidiaries

December 31,	2005	2004
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 5,389	\$ 9,556
Accounts payable	4,954	7,415
Payable to regulated investment companies	204	4,302
Accrued liabilities (Note 2)	156,369	139,957
Deferred gain	267	—
Deferred revenue	287	2,339
Total Current Liabilities	167,470	163,569
Long-term Debt	9,000	14,389
Deferred Income Taxes	58,989	32,103
Deferred Gain	—	1,472
Commitments and Contingencies (Note 9)		
Shareholders' Equity:		
Series Preferred stock, \$.05 par value, 60 shares authorized; no shares issued and outstanding	—	—
Common stock, \$.01 par value, 750,000 shares authorized; 98,580 and 102,175 shares issued and outstanding	986	1,022
Capital in excess of par value	268,608	262,174
Retained earnings	148,127	134,595
Accumulated other comprehensive income, net	3,967	6,151
Total Shareholders' Equity	421,688	403,942
Total Liabilities and Shareholders' Equity	\$ 657,147	\$ 615,475

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

[Table of Contents](#)**Consolidated Statements of Operations**

(In thousands, except per-share data)

SEI Investments Company
and Subsidiaries

Year Ended December 31,	2005	2004	2003
Revenues	\$ 773,007	\$ 692,269	\$ 636,233
Expenses:			
Operating and development	393,954	321,298	283,624
Sales and marketing	133,202	131,368	120,813
General and administrative	33,898	30,153	25,615
Income from operations	211,953	209,450	206,181
Equity in the earnings of unconsolidated affiliate	74,818	45,711	22,461
Net gain (loss) from investments	87	3,848	(6,927)
Interest income	8,367	4,545	4,363
Interest expense	(1,524)	(2,112)	(2,303)
Other income	1,508	3,689	509
Income before income taxes	295,209	265,131	224,284
Income taxes	106,865	96,110	81,303
Net income	\$ 188,344	\$ 169,021	\$ 142,981
Basic earnings per common share	\$ 1.88	\$ 1.63	\$ 1.36
Diluted earnings per common share	\$ 1.83	\$ 1.60	\$ 1.32

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

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Consolidated Statements of Shareholders' Equity and Comprehensive Income
(In thousands)

SEI Investments Company
and Subsidiaries

	Common Stock		Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss)
	Shares	Amount					
Balance, December 31, 2002	106,184	\$ 1,062	\$ 216,284	\$ 74,019	\$ (1,358)	\$ 290,007	
Comprehensive income:							
Net income	—	—	—	142,981	—	142,981	\$ 142,981
Foreign currency translation	—	—	—	—	1,763	1,763	1,763
Unrealized net gains on investments, net of income taxes of \$(2,648)	—	—	—	—	4,487	4,487	4,487
Reclassification adjustment for losses realized in net income, net of income taxes of \$122	—	—	—	—	(208)	(208)	(208)
Total comprehensive income							\$ 149,023
Purchase and retirement of common stock	(3,536)	(35)	(7,158)	(88,260)	—	(95,453)	
Issuance of common stock under the employee stock purchase plan	95	1	2,302	—	—	2,303	
Issuance of common stock upon exercise of stock options	2,126	21	14,977	—	—	14,998	
Tax benefit on stock options exercised	—	—	19,663	—	—	19,663	
Dividends declared (\$.16 per share)	—	—	—	(16,768)	—	(16,768)	
Balance, December 31, 2003	104,869	\$ 1,049	\$ 246,068	\$ 111,972	\$ 4,684	\$ 363,773	
Comprehensive income:							
Net income	—	—	—	169,021	—	169,021	\$ 169,021
Foreign currency translation	—	—	—	—	3,229	3,229	3,229
Unrealized net gains on investments, net of income taxes of \$(888)	—	—	—	—	1,581	1,581	1,581
Reclassification adjustment for losses realized in net income, net of income taxes of \$1,939	—	—	—	—	(3,343)	(3,343)	(3,343)
Total comprehensive income							\$ 170,488
Purchase and retirement of common stock	(4,127)	(41)	(9,597)	(125,871)	—	(135,509)	
Issuance of common stock under the employee stock purchase plan	86	1	2,358	—	—	2,359	
Issuance of common stock upon exercise of stock options	1,347	13	9,311	—	—	9,324	
Tax benefit on stock options exercised	—	—	14,034	—	—	14,034	
Dividends declared (\$.20 per share)	—	—	—	(20,527)	—	(20,527)	
Balance, December 31, 2004	102,175	\$ 1,022	\$ 262,174	\$ 134,595	\$ 6,151	\$ 403,942	

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

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Consolidated Statements of Shareholders' Equity and Comprehensive Income
(In thousands)

SEI Investments Company
and Subsidiaries

	<u>Common Stock</u>		<u>Capital In Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>	<u>Comprehensive Income (Loss)</u>
	<u>Shares</u>	<u>Amount</u>					
Balance, December 31, 2004	102,175	\$ 1,022	\$ 262,174	\$ 134,595	\$ 6,151	\$ 403,942	
Comprehensive income:							
Net income	—	—	—	188,344	—	188,344	\$ 188,344
Foreign currency translation	—	—	—	—	(1,684)	(1,684)	(1,684)
Unrealized net losses on investments, net of income taxes of \$260	—	—	—	—	(456)	(456)	(456)
Reclassification adjustment for losses realized in net income, net of income taxes of \$27	—	—	—	—	(44)	(44)	(44)
Total comprehensive income							\$ 186,160
Purchase and retirement of common stock	(4,443)	(45)	(11,185)	(152,888)	—	(164,118)	
Issuance of common stock under the employee stock purchase plan	82	1	2,578	—	—	2,579	
Issuance of common stock upon exercise of stock options	766	8	7,351	—	—	7,359	
Tax benefit on stock options exercised	—	—	7,690	—	—	7,690	
Dividends declared (\$.22 per share)	—	—	—	(21,924)	—	(21,924)	
Balance, December 31, 2005	98,580	\$ 986	\$ 268,608	\$ 148,127	\$ 3,967	\$ 421,688	

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

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Consolidated Statements of Cash Flows
(In thousands)

SEI Investments Company
and Subsidiaries

Year Ended December 31,	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 188,344	\$ 169,021	\$ 142,981
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,585	16,183	16,788
Undistributed earnings of affiliate	(15,154)	(15,417)	(7,636)
Provision for losses on receivables	(280)	100	—
Tax benefit on stock options exercised	7,690	14,034	19,663
Gain on partial sale of unconsolidated affiliate	(1,205)	—	—
Deferred income tax expense	26,218	19,396	3,590
Net realized (gains) losses on investments	(87)	(3,840)	5,215
Write-off of capitalized software	4,409	—	—
Other-than-temporary declines in market value	—	—	595
Other	(4,523)	(2,805)	1,903
Change in current assets and liabilities:			
Decrease (increase) in:			
Receivables from regulated investment companies	(870)	(2,510)	(4,599)
Restricted cash	4,136	39,095	(43,481)
Receivables	(18,600)	(19,773)	(7,371)
Prepaid expenses and other current assets	(386)	(1,123)	(974)
Increase (decrease) in:			
Accounts payable	(2,461)	(12)	3,369
Payable to regulated investment companies	(4,098)	(38,797)	43,099
Accrued expenses	15,771	11,026	5,660
Deferred revenue	(2,052)	1,932	(799)
Total adjustments	<u>26,093</u>	<u>17,489</u>	<u>35,022</u>
Net cash provided by operating activities	<u>\$ 214,437</u>	<u>\$ 186,510</u>	<u>\$ 178,003</u>

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

[Table of Contents](#)**Consolidated Statements of Cash Flows**
(In thousands)SEI Investments Company
and Subsidiaries

Year Ended December 31,	2005	2004	2003
Cash flows from investing activities:			
Additions to property and equipment	(15,725)	(14,236)	(23,736)
Additions to capitalized software	(67,591)	(36,962)	(10,393)
Purchase of marketable securities	(38,084)	(28,532)	(57,421)
Sale of marketable securities	4,845	61,829	52,367
Partial sale of investment in unconsolidated affiliate	—	6,183	—
Other	299	183	(764)
Net cash used in investing activities	(116,256)	(11,535)	(39,947)
Cash flows from financing activities:			
Payments on long-term debt	(9,556)	(14,388)	(11,973)
Purchase and retirement of common stock	(164,118)	(135,509)	(95,453)
Proceeds from issuance of common stock	9,938	11,683	17,301
Payment of dividends	(21,283)	(19,748)	(13,702)
Net cash used in financing activities	(185,019)	(157,962)	(103,827)
Net (decrease) increase in cash and cash equivalents	(86,838)	17,013	34,229
Cash and cash equivalents, beginning of year	216,966	199,953	165,724
Cash and cash equivalents, end of year	\$ 130,128	\$ 216,966	\$ 199,953
Interest paid	\$ 1,533	\$ 2,233	\$ 2,507
Income taxes paid (Federal and state)	\$ 66,271	\$ 68,947	\$ 55,904
Non-Cash Investing Activity			
Issuance of note for additional interest in unconsolidated affiliate	—	—	\$ 7,250
Non-Cash Financing Activity			
Dividends declared but not paid	\$ 10,860	\$ 10,218	\$ 9,439

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

Note 1 - Summary of Significant Accounting Policies:

Nature of Operations

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

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

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

The Company is organized around its primary target markets. As of December 31, 2005, the Company's business segments were: Private Banking and Trust, Investment Advisors, Enterprises, Money Managers, and Investments in New Businesses. Financial information pertaining to the Company's business segments is included in Note 11.

Effective January 1, 2006, the Company reorganized its business segments in order to better align new and existing solutions and corresponding processes. Starting with this reorganization, the Company has also begun a process to consolidate certain business activities into new, globally-managed segments when deemed appropriate. Additional information pertaining to the reorganization of the Company's business segments is included in Note 11.

Principles of Consolidation

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

The revised interpretation of Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46-R), "Consolidation of Variable Interest Entities," requires that if an enterprise is the primary beneficiary of a variable interest entity, the assets, liabilities, and results of operations of the variable interest entity should be included in the consolidated financial statements of the enterprise. FIN 46-R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. As of December 31, 2005, the Company does not have any investments in entities it believes are variable interest entities for which the Company is the primary beneficiary.

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On January 24, 2006, the Company entered into a Guaranty and Collateral Agreement to provide an unsecured loan guaranty to LSV Employee Group, LLC (LSV Employee Group), a limited liability company which is owned by certain current employees of LSV Asset Management (LSV), a general partnership and unconsolidated affiliate. The purpose of the agreement was to assist LSV Employee Group in their purchase of partnership units from two existing partners of LSV. Due to this transaction and other elements of the relationship with LSV, management is currently evaluating whether the Company is the primary beneficiary and whether the Company will be required to consolidate into its financial statements the accounts of LSV Employee Group and LSV beginning in 2006 (See Note 14).

Management's Use of Estimates

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

Revenue Recognition

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

Cash and Cash Equivalents

The Company considers investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include \$55,237 and \$148,974 at December 31, 2005 and 2004, respectively, primarily invested in Company-sponsored open-ended money market mutual funds.

Restricted Cash

Restricted cash includes cash of \$4,302 at December 31, 2004 received for the benefit of customers of SIDCO in order to settle investment transactions for regulated investment companies (RICs). SIMC, in its capacity as transfer agent, facilitates the purchase and redemption of mutual fund transactions for SIDCO customers. Corresponding liabilities are established for payment to the RICs, which is reflected in Payable to regulated investment companies on the accompanying Consolidated Balance Sheets. The total balance of cash received from such parties is typically paid the following business day. At December 31, 2005, the cash amounts to facilitate the payment of investment transactions for SIDCO customers were no longer deemed to belong to the Company and, therefore, were not included in Restricted cash.

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

Additionally, Restricted cash at December 31, 2005 includes \$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 trade accounts receivable.

Concentration of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of cash equivalents, marketable securities and trade receivables. Cash equivalents are principally invested in short-term money market funds or placed with major banks and high-credit qualified financial institutions. Cash deposits maintained with institutions are in excess of federally insured limits. 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. Construction in progress includes the cost of construction and other direct costs attributable to the construction. 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 deemed necessary. Currently, the Company has certain marketable securities classified as available-for-sale. SFAS 115 requires that debt and equity securities classified as available-for-sale be reported at fair value as determined by the most recently traded price of 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. SIDCO, the Company's broker-dealer subsidiary, reports changes in fair value of marketable securities through current period earnings due to specialized accounting practices related to broker-dealers in securities. The specific identification method is used to compute the realized gains and losses on all of the Company's marketable securities (See Note 3).

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.

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.

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

The Company enters into hedging relationships such that the change in the fair value of the asset being hedged is expected to be offset by a counteracting change in the fair value of the derivative instrument. Since the Company's derivatives do not qualify as accounting hedges, 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 which may not qualify as accounting hedges to support certain business strategies. These economic hedges may cause some volatility in earnings.

The Company holds equity derivatives with a notional amount of \$11,821 with an expected maturity date in 2007. Net gain (loss) from investments on the accompanying Consolidated Statements of Operations includes net losses of \$525, \$1,493 and \$6,031 in 2005, 2004 and 2003, respectively, from changes in the fair value of derivative instruments.

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 \$67,591, \$36,962, and \$10,393 of software development costs in accordance with SOP 98-1 during 2005, 2004, and 2003, respectively.

Amortization of capitalized software development costs begins when the product is placed into service. Capitalized software development costs are amortized on a product-by-product basis using the straight-line method over the estimated economic life of the product or enhancement, which is primarily three to ten years, with a weighted average remaining life of approximately 4.2 years. Amortization expense was \$2,342, \$2,247, and \$1,874 in 2005, 2004, and 2003, respectively, and is included in Operating and development expense on the accompanying Consolidated Statements of Operations.

The Company determined during 2005 that software purchased from Vermeg Services S.A.R.L. (Vermeg), a third party software vendor, that was capitalized as part of the development of a new platform did not satisfy all of the expected functionality requirements. The Company has discontinued its relationship with Vermeg. As a result, \$3,587 of previously capitalized software development costs of Vermeg was written-off. Additionally, the Company removed \$1,922 of unpaid liabilities to this vendor directly associated with the amount that was capitalized. As a result, the Company recorded a net charge of \$1,665 to Operating and development expenses on the accompanying Consolidated Statements of Operations. See Note 9 for additional information pertaining to Vermeg.

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The Company, in 2005, also determined during a review that certain previously capitalized software development costs were obsolete. As a result, the Company wrote off \$822 in net capitalized software development costs which are reflected in Operating and development expenses on the accompanying Consolidated Statements of Operations.

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 (See Note 10).

Foreign Currency Translation

The assets and liabilities and results of operations of the Company's foreign subsidiaries are measured using the foreign subsidiary's local currency as the functional currency. Assets and liabilities have been translated into U.S. dollars using the rates of exchange at the balance sheet date. The results of operations have been translated into U.S. dollars at average exchange rates prevailing during the period. The resulting translation gain and loss adjustments are recorded as a separate component of comprehensive income.

Transaction gains and losses that arise from exchange rate fluctuations are included in the results of operations in the periods in which they occur, and are immaterial for each of the years in the three year period ended December 31, 2005.

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 at December 31, 2005.

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Earnings Per Common 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 during 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 2005, 2004, and 2003 are:

	For the year ended December 31, 2005		
	Net Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per common share	\$ 188,344	100,371	\$ 1.88
Dilutive effect of stock options	—	2,767	
Diluted earnings per common share	\$ 188,344	103,138	\$ 1.83

	For the year ended December 31, 2004		
	Net Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per common share	\$ 169,021	103,399	\$ 1.63
Dilutive effect of stock options	—	2,467	
Diluted earnings per common share	\$ 169,021	105,866	\$ 1.60

	For the year ended December 31, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per common share	\$ 142,981	105,173	\$ 1.36
Dilutive effect of stock options	—	2,964	
Diluted earnings per common share	\$ 142,981	108,137	\$ 1.32

Employee stock options to purchase approximately 6,754,000, 4,753,000, and 2,657,000 shares of common stock, with an average exercise price per share of \$42.56, \$44.39, and \$45.49, were outstanding during 2005, 2004, and 2003, respectively, but not included in the computation of diluted earnings per common share because the option's exercise price was greater than the average market price of the Company's common stock, and the effect on diluted earnings per common share would have been anti-dilutive (See Note 7).

Stock-Based Compensation

The Company accounts for its employee stock options based upon their intrinsic value on the date of grant pursuant to Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." The Company grants stock options to its employees based on the fair market value of the Company's stock at the date of grant. Since the stock options have no intrinsic value upon grant, the Company does not record any compensation cost. A description of the Company's employee stock option plans is included in Note 7.

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

	2005	2004	2003
Risk-free interest rate	4.43%	3.93%	3.79%
Expected dividend yield	0.57%	0.48%	0.43%
Expected life	7.8 Years	7.0 Years	7.0 Years
Expected volatility	42.04%	44.46%	42.17%

The weighted average fair value of the Company's employee stock options as calculated by the Black-Scholes option pricing model granted during 2005, 2004, and 2003 was \$19.34, \$20.57, and \$14.06, respectively.

On December 14, 2005, the Company's Compensation Committee of the Board of Directors recommended and the Company's Board of Directors approved the acceleration of vesting of certain out-of-the-money unvested options to purchase shares of common stock of the Company with an exercise price greater than \$38.55, the closing price of the Company's common stock on such date, held by current employees, executive officers and directors of the Company. Executives and key employees were required to sign a lock-up agreement that required them not to sell, transfer or dispose of any shares until such time as those shares would otherwise have been issuable upon exercise of the stock options pursuant to the original vesting terms. 4,438,000 options with exercise prices ranging between \$41.45 and \$50.00 will become immediately exercisable. The other terms of the accelerated options remain unchanged. The acceleration of vesting of these out-of-the-money options is being undertaken primarily to eliminate any future compensation expense the Company would otherwise recognize in its Statement of Operations with respect to these options with the implementation of Statement of Financial Accounting Standards 123(R) (SFAS 123(R)), "Share-Based Payment," effective for the Company on January 1, 2006. Incremental expense of \$44,447 (or \$28,357 net of related tax effects) associated with the acceleration was included in period ended December 31, 2005 pro forma disclosure in the table below.

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

	2005	2004	2003
Net income:			
As reported	\$188,344	\$169,021	\$142,981
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(41,842)	(14,274)	(10,150)
Pro forma	\$146,502	\$154,747	\$132,831
Basic earnings per common share:			
As reported	\$ 1.88	\$ 1.63	\$ 1.36
Pro forma	\$ 1.46	\$ 1.50	\$ 1.26
Diluted earnings per common share:			
As reported	\$ 1.83	\$ 1.60	\$ 1.32
Pro forma	\$ 1.42	\$ 1.46	\$ 1.23

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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 includes unrealized gains and losses on marketable securities and foreign currency translation. The Company presents comprehensive income in its Consolidated Statements of Shareholders' Equity and Comprehensive Income. Components of Accumulated other comprehensive income consisted of:

December 31,	2005	2004
Foreign currency translation	\$3,675	\$5,359
Unrealized gains on marketable securities, net of income tax expense of \$160 and \$447	292	792
Accumulated other comprehensive income, net	<u>\$3,967</u>	<u>\$6,151</u>

New Accounting Pronouncements

In December 2004, the FASB issued SFAS 123(R), "Share-Based Payment." SFAS 123(R) revises SFAS 123 and supersedes APB 25. SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services, incurs liabilities in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, but does not change the accounting guidance for share-based payment transactions with parties other than employees. The accounting provisions of SFAS 123(R) are effective for the annual period beginning January 1, 2006. The primary impact that SFAS 123(R) will have on the Company's financial statements is the requirement to expense the fair value of its employee stock options rather than disclosing that information in a set of pro-forma financial statements. Adoption of SFAS 123(R) will also require the Company to recognize as compensation expense the purchase discount from the market price of our common stock offered to employees through the employee stock purchase plan.

The Company will adopt the modified prospective application transition method in accordance with SFAS 123(R) in the first quarter of 2006. The Company will apply the "short-cut" method for determining its windfall tax benefit pool on the date of adoption as permitted by FASB Staff Position No. 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards." As of the date of adoption, a total of \$70,600 of unrecognized compensation cost was remaining which is expected to be recognized as follows: \$17,950 per year in 2006 and 2007, \$10,900 in 2008, \$10,500 in 2009, and \$8,300 in 2010. The remaining portion will be recognized evenly in 2011 and 2012.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 (SFAS 154), "Accounting Changes and Error Corrections," a replacement of Accounting Principles Board Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," effective for fiscal years beginning after December 15, 2005. SFAS 154 changes the requirements for the accounting for and reporting of a voluntary change in accounting principle as well as changes required by an accounting pronouncement which does not include specific transition provisions. The Company does not expect the implementation of SFAS 154 to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

In November 2005, the FASB issued Staff Position Nos. FAS 115-1 and FAS 124-1 (FSP FAS 115-1), "The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments," which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such

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impairment loss. FSP FAS 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP FAS 115-1 is required to be applied to reporting periods beginning after December 15, 2005. The Company does not expect the adoption of this statement will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Reclassifications

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

Note 2 – Composition of Certain Financial Statement Captions:

Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	<u>2005</u>	<u>2004</u>
Trade receivables	\$29,895	\$21,015
Fees earned, not billed	65,910	57,923
Other receivables	3,702	1,969
	<u>99,507</u>	<u>80,907</u>
Less: Allowance for doubtful accounts	(1,520)	(1,800)
Receivables, net	<u>\$97,987</u>	<u>\$79,107</u>

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

Receivables from regulated investment companies on the accompanying Consolidated Balance Sheets primarily represent fees receivable generated by two of the Company's wholly-owned subsidiaries, SIDCO and SIMC, for distribution, investment advisory, and administration services provided by these subsidiaries to various regulated investment companies sponsored by the Company (See Note 12).

Property and Equipment

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

	<u>2005</u>	<u>2004</u>
Equipment	\$ 63,251	\$ 60,279
Buildings	98,235	97,767
Land	9,510	9,380
Purchased software	30,251	27,653
Furniture and fixtures	16,820	15,334
Leasehold improvements	2,961	2,803
Construction in progress	2,685	948
	<u>223,713</u>	<u>214,164</u>
Less: Accumulated depreciation and amortization	(109,208)	(100,524)
Property and Equipment, net	<u>\$ 114,505</u>	<u>\$ 113,640</u>

Depreciation and amortization expense related to property and equipment for 2005, 2004, and 2003 was \$14,624, \$13,377, and \$14,724.

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Other Assets

Other assets on the accompanying Consolidated Balance Sheets consist of:

	<u>2005</u>	<u>2004</u>
Investment in unconsolidated affiliate	\$51,941	\$37,672
Other, net	13,423	12,837
Other assets, net	<u>\$65,364</u>	<u>\$50,509</u>

Investment in unconsolidated affiliate relates to the Company's 43 percent ownership in the general partnership LSV Asset Management (See Note 4).

Other, net consists of long-term prepaid expenses, deposits, investments carried at cost, and various other assets. Amortization expense for certain other assets for 2005, 2004, and 2003 was \$182, \$450, and \$190, respectively.

Accrued Liabilities

Accrued Liabilities on the accompanying Consolidated Balance Sheets consist of:

	<u>2005</u>	<u>2004</u>
Accrued compensation	\$ 53,157	\$ 44,360
Accrued income taxes	11,487	4,239
Accrued dividend payable	10,859	10,218
Accrued sub-advisor and investment officer fees	10,111	12,751
Accrued consulting	8,719	9,135
Other accrued liabilities	62,036	59,254
Accrued liabilities	<u>156,369</u>	<u>139,957</u>

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

Accrued income taxes also include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns (See Note 10).

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Note 3 – Marketable Securities:

Investments Available-For-Sale

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

	For the Year ended December 31, 2005			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Fair Value</u>
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
	<u>\$54,180</u>	<u>\$ 1,726</u>	<u>\$ (1,274)</u>	<u>\$54,632</u>

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

Net unrealized holding gains were \$292 (net of income tax expense of \$160) and \$792 (net of income tax expense of \$447) at December 31, 2005 and December 31, 2004, respectively, and are reported as separate components of Accumulated other comprehensive income on the accompanying Consolidated Balance Sheets.

The Company recognized gross realized gains from available-for-sale securities of \$595, \$5,347, and \$1,862, in 2005, 2004 and 2003, respectively, and gross realized losses from available-for-sale securities of \$14 and \$1,046 in 2004 and 2003, respectively. There were no realized losses from available-for-sale securities in 2005.

At December 31, 2005, the Company had a single investment in a Company-sponsored mutual fund that has been in an unrealized loss position longer than one year. This mutual fund primarily invests in federal agency mortgage-backed securities and has a positive total return due to the amount of monthly dividends paid to the Company. The cost basis of this investment was \$42,880 with a fair value of \$41,606 and a gross unrealized loss of \$1,274. The Company must maintain a certain level of investments in mortgage-type securities in order to satisfy certain regulatory requirements associated with the operations of SPTC. Therefore, the Company has the ability and intent to hold this investment until a recovery occurs. Also, the Company does not consider the decline in market value significant and attributes it to the recent increase in interest rates.

The Company recorded an impairment charge of \$595 in 2003 related to other-than-temporary declines in fair value and is included in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations. The Company did not record an impairment charge related to other-than-temporary declines in fair value for any of its securities available-for-sale in 2005 or 2004.

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Securities Owned

At December 31, 2005, the Company's broker-dealer subsidiary, SIDCO, had investments in U.S. Treasury securities reflected as Securities owned on the accompanying Consolidated Balance Sheets. Due to specialized accounting practices applicable to investments by broker-dealers, the securities are reported at fair value and changes in fair value are recorded in current period earnings. Net gain (loss) from investments on the accompanying Consolidated Statements of Operations includes net gains of \$17 in 2005 from changes in the fair value of the securities. The securities have a fair value of \$19,709 and mature in 2006 and are therefore classified as current assets.

Note 4 – Investment in Unconsolidated Affiliate:

The Company has an investment in the general partnership LSV Asset Management (LSV). LSV is a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies. LSV is currently an investment sub-advisor for a number of Company-sponsored mutual funds. The Company accounts for its interest in LSV using the equity method of accounting. The Company's total partnership interest in LSV was approximately 43 percent during 2005.

For the first six months of 2004, the Company's partnership interest in LSV was approximately 46 percent. On July 1, 2004, the Company sold a small percentage of its interest in LSV to certain other partners of LSV, reducing the partnership interest to 43 percent. Total proceeds received from the sale were \$6,183 and the basis of the Company's investment relating to the sold interest was \$1,614, resulting in a total gain of \$4,569. Certain partners paid the Company directly whereas certain other partners elected to finance their purchase through LSV. The Company realized \$3,097 of the gain in 2004 and deferred the remaining portion of the gain of \$1,472. The amount of the deferred gain at December 31, 2004 is reflected as Deferred gain on the accompanying Consolidated Balance Sheets.

During the twelve months ended December 31, 2005, the Company recognized amounts of the deferred gain according to the Company's partnership interest of the outstanding balance owed to the partnership. The Company recognized \$1,205 of the deferred gain as other income in 2005 with the remaining portion reflected as Deferred gain on the accompanying Consolidated Balance Sheets at December 31, 2005. In January 2006, the final payment was received by LSV from the partners who financed their purchase.

At December 31, 2005, the Company's investment in LSV exceeded its underlying equity in the net assets of LSV by \$6,337, of which \$3,275 is considered finite-lived intangible assets and the remaining \$3,062 is considered goodwill embedded in the investment. The finite-lived intangible assets primarily relate to customer contracts that meet the contractual-legal criterion for recognition apart from goodwill. The Company amortizes the finite-lived intangible assets on a straight-line basis over eight and a half years. The Company recorded \$437 and \$109 in amortization expense during 2005 and 2004, respectively. Total accumulated amortization at December 31, 2005 was \$546. The Company does not record amortization expense associated with the embedded goodwill. The Company determines on an annual basis if its investment in LSV is impaired which includes the embedded goodwill. The Company's investment in LSV is considered General and Administrative and is not included in a business segment.

On January 24, 2006, certain of the partners sold an aggregate eight percent interest in LSV to LSV Employee Group, LLC (the Borrower), which is owned by certain current employees of LSV. In order to finance a portion of the purchase price for such interests, the Borrower obtained financing from LaSalle Bank National Association (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 is \$82,800 and is to be paid in quarterly installments with all payments due by January 24, 2011. The Borrower has pledged their interests as collateral to secure the term loan. The Company has entered into a Guaranty and Collateral Agreement with the Borrower and the Agent to facilitate the acquisition of the partnership interests by the Borrower. This transaction may require the Company to consolidate the accounts of LSV and the Borrower beginning in 2006. If consolidated, the remaining 57 percent interest in LSV will be reported as minority interest (See Note 14).

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These tables contain condensed financial information of LSV:

Condensed Statement of Operations	2005	2004	2003
Revenues	\$ 197,643	\$ 119,517	\$ 60,806
Net income	\$ 175,343	\$ 103,452	\$ 49,506
Condensed Balance Sheet	2005	2004	
Cash and cash equivalents	\$ 45,698	\$ 29,962	
Accounts receivable, net of allowance for doubtful accounts of \$120 and \$240	65,312	43,413	
Other current assets	135	201	
Non-current assets	504	693	
Total assets	\$ 111,649	\$ 74,269	
Current liabilities	\$ 8,955	\$ 5,556	
Partners' capital	102,694	68,713	
Total liabilities and partners' capital	\$ 111,649	\$ 74,269	

The Company received partnership distribution payments from LSV of \$60,100 and \$30,294 in 2005 and 2004, respectively.

Note 5 - 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 at December 31, 2005 and was in compliance with all covenants during 2005.

On September 14, 2004, the Company entered into a three-year \$200,000 Credit Agreement (the Credit Facility). 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. Currently, these covenants do not adversely affect the Company's liquidity or capital resources.

The Company had no borrowings under the Credit Facility and was in compliance with all covenants during 2005. The Company incurred \$303, \$447, and \$180 in commitment fees relating to the current and since expired lines of credit during 2005, 2004, and 2003, respectively, and is reflected in Interest expense on the accompanying Consolidated Statements of Operations.

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Note 6 - Long-term Debt:

On February 24, 1997, the Company signed a Note Purchase Agreement authorizing the issuance and sale of \$20,000 of 7.20 percent Senior Notes, Series A, and \$15,000 of 7.27 percent Senior Notes, Series B (collectively, the Notes), in a private offering with certain financial institutions. The Notes are unsecured with final maturities ranging from 10 to 15 years. The proceeds from the Notes were used to repay the outstanding balance on the Company's line of credit at that date. The Note Purchase Agreement, as 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.

On June 26, 2001, the Company entered into a \$25,000 Term Loan Agreement (the Agreement) with a separate lending institution which expires on March 31, 2006 and is payable in 17 equal quarterly installments. On August 2, 2001, the Company borrowed the full \$25,000. The Agreement provides the Company the option to have interest accrued at either the lower of the Prime rate or one and thirty-five hundredths of one percent above LIBOR. The Agreement contains various covenants, including limitations on indebtedness and restrictions on certain investments. None of these covenants negatively affect the Company's liquidity or capital resources. The Company made its scheduled payments during 2005 for a total of \$5,556. The weighted average rate applied to the loan throughout 2005 was 4.48 percent. The interest rate which will be applied during the first quarter of 2006 is 5.88 percent.

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 Company was in compliance with all covenants associated with its long-term debt during 2005.

Aggregate maturities of long-term debt at December 31, 2005 are:

	<u>Senior Notes</u>	<u>Term Loan</u>	<u>Total</u>
2006	\$ 4,000	\$1,389	\$ 5,389
2007	4,000	—	4,000
2008	1,000	—	1,000
2009	1,000	—	1,000
2010	1,000	—	1,000
2011 and thereafter	2,000	—	2,000
	<u>\$13,000</u>	<u>\$1,389</u>	<u>\$14,389</u>

Interest expense relating to the Company's long-term debt was \$1,221, \$1,591, and \$2,017 for the years ended December 31, 2005, 2004, and 2003, respectively.

Note 7 - Shareholders' Equity:

Stock-Based Compensation Plans

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

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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 the 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. The terminated plans are the Company Stock Option Plan, the 1997 Stock Option Plan, and the Non-employee Directors Plan. No options are available for grant from these terminated plans, and grants made under these plans continue in effect under the terms of the grant and the applicable plan. All of the Company's equity compensation plans are administered by the Company's Stock Option Committee.

This table presents certain information relating to the Company's stock option plans for 2005, 2004, and 2003:

	<u>Number of Shares</u>	<u>Weighted Avg. Price</u>
Balance as of December 31, 2002	14,473,000	20.28
Granted	2,416,000	29.56
Exercised	(2,128,000)	7.07
Expired or canceled	(272,000)	33.67
Balance as of December 31, 2003	14,489,000	\$ 23.51
Granted	2,524,000	41.76
Exercised	(1,350,000)	6.97
Expired or canceled	(456,000)	32.57
Balance as of December 31, 2004	15,207,000	\$ 27.73
Granted	2,259,000	38.48
Exercised	(771,000)	9.84
Expired or canceled	(417,000)	33.79
Balance as of December 31, 2005	16,278,000	29.92
Exercisable as of December 31, 2005	9,457,000	\$ 28.04
Available for future grant as of December 31, 2005	4,095,000	—

As of December 31, 2004 and 2003, there were 5,736,000 and 6,210,000 shares exercisable, respectively. The expiration dates for options at December 31, 2005 range from December 17, 2006 to December 14, 2015 with a weighted average remaining contractual life of 6.4 years.

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This table summarizes information relating to all options outstanding at December 31, 2005:

Range of Exercise Prices (Per Share)	Options Outstanding at December 31, 2005		Options Exercisable at December 31, 2005		Weighted Average Remaining Contractual Life (Years)
	Number of Shares	Weighted Average Exercise Price (Per Share)	Number Of Shares	Weighted Average Exercise Price (Per Share)	
\$ 3.25 - \$15.69	3,383,000	\$ 9.77	3,383,000	\$ 9.77	2.4
16.21 - 29.42	3,600,000	25.23	1,524,000	19.61	5.8
29.56 - 38.25	2,599,000	29.97	101,000	36.67	7.9
38.55 - 42.86	3,449,000	40.07	1,215,000	42.83	8.6
43.09 - 50.00	3,247,000	45.29	3,234,000	45.29	7.7
	<u>16,278,000</u>		<u>9,457,000</u>		

Employee Stock Purchase Plan

The Company has an employee stock purchase plan that provides for offerings of common stock to eligible employees at a price equal to 85 percent of the fair market value of the stock at the end of the stock purchase period, as defined. The Company has reserved 7,800,000 shares for issuance under this plan. At December 31, 2005, 5,353,000 cumulative shares have been issued.

Common Stock Buyback

The Board of Directors has authorized the purchase of the Company’s common stock on the open market or through private transactions of up to an aggregate of \$1,053,365, including an additional authorization on January 30, 2006 for \$50,000. Through December 31, 2005, a total of 118,587,000 shares at an aggregate cost of \$1,001,376 have been purchased and retired. The Company purchased 4,443,000 shares at a cost of \$164,118 during 2005.

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

Shareholders’ Rights Plan

On December 10, 1998, the Company’s Board of Directors adopted a Shareholder Rights Plan (the Rights Plan) to deter coercive or unfair takeover tactics and to prevent a person or group (an Acquiring Person) from acquiring control of the Company without offering a fair price to all shareholders. Under the Rights Plan, all common shareholders receive one Right for each common share outstanding. Each Right entitles the registered holder to purchase from the Company one two-thousandths of a share of Series A Junior Participating Preferred Shares, \$.05 par value per share, at a purchase price of \$500 per share. The Rights will become exercisable and trade separately from the common stock ten days following a public announcement that an Acquiring Person has beneficial ownership of 20 percent or more of the outstanding common stock or the commencement of a tender or exchange offer that would result in an Acquiring Person owning 20 percent or more of the outstanding common stock. Upon exercise, holders, other than an Acquiring Person, will have the right to purchase the common stock of the Company equal to twice the value of the exercise price of the Rights. If the Company is involved in certain other mergers where its shares are exchanged or certain major sales of its assets occur, stockholders will be able to purchase the other party’s common shares in an amount equal to twice the value of the exercise price of the Rights. The Rights, which do not have voting rights, will expire on December 19, 2008, and may be redeemed by the Company any time until ten days following the announcement of an Acquiring Person at a price of \$.01 per Right.

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Dividends

On May 25, 2005, the Board of Directors declared a cash dividend of \$.11 per share on the Company's common stock, which was paid on June 24, 2005, to shareholders of record on June 8, 2005. On December 14, 2005, the Board of Directors declared a cash dividend of \$.11 per share on the Company's common stock, which was paid on January 20, 2006, to shareholders of record on January 3, 2006.

The dividends declared in 2005, 2004, and 2003 were \$21,924, \$20,527, and \$16,768, respectively. The Board of Directors has indicated its intention to pay future dividends on a semiannual basis.

Note 8 - Employee Benefit Plan:

The Company has a tax-qualified defined contribution plan (the Plan). The Plan provides retirement benefits, including provisions for early retirement and disability benefits, as well as a tax-deferred savings feature. After satisfying certain requirements, participants are vested in employer contributions at the time the contributions are made. All Company contributions are discretionary and are made from available profits. The Company contributed \$3,804, \$3,404, and \$3,196 to the Plan in 2005, 2004, and 2003, respectively.

Note 9 - Commitments and Contingencies:

The Company leases certain of its facilities, data processing equipment, and software under non-cancelable operating leases, some which contain escalation clauses for increased taxes and operating expenses. The Company has other commitments relating to purchases of data processing equipment and software. The Company has entered into maintenance agreements primarily for its data processing equipment. Rent expense was \$13,437, \$12,728, and \$13,757 in 2005, 2004, and 2003, respectively.

The aggregate noncancellable minimum commitments at December 31, 2005, other than those related to the lines of credit and long-term debt, are:

2006	9,439
2007	7,036
2008	4,326
2009	1,660
2010	1,549
2011 and thereafter	13,640
	<u>\$37,650</u>

In the ordinary course of business, the Company from time to time enters into contracts containing indemnification obligations of the Company. These obligations may require the Company to make payments to another party upon the occurrence of certain events including the failure by the Company to meet its performance obligations under the contract. These contractual indemnification provisions are often standard contractual terms of the nature customarily found in the type of contracts entered into by the Company. In many cases, there are no stated or notional amounts included in the indemnification provisions. There are no amounts reflected on the Consolidated Balance Sheet as of December 31, 2005 related to these indemnifications.

In the normal course of business, the Company is party to various claims and legal proceedings. On September 30, 2004, SIDCO was named as a defendant in a putative consolidated amended class action complaint filed in the United States District Court for the District of Maryland titled "Stephen Carey v. Pilgrim Baxter & Associates, LTD, et. al." This complaint is purportedly made on behalf of all persons that purchased or held PBHG mutual funds during the period from November 1, 1998 to November 13, 2003 and relates generally to various market timing practices allegedly permitted by the PBHG Funds. The complaint alleges that SIDCO was the named distributor/underwriter from November 1998 until July 2001 for various PBHG funds in which market timing allegedly occurred during that period. While the

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outcome of this litigation is uncertain, SIDCO believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously. The Company has not made any provision relating to this legal proceeding.

In April, 2005, the Company and SIMC were named as defendant in a complaint (the "Vermeg Complaint") filed by Vermeg Services S.A.R.L. ("Vermeg"), a Tunisian company, in the United States District Court for the Eastern District of Pennsylvania. SIMC terminated a software license and services contract with Vermeg in March, 2005 citing failure of the Vermeg software to meet acceptance and performance criteria under the contract. The Vermeg Complaint sought monetary damages which it alleged arose out of the purported breach of such contract by the Company and SIMC as well as various other relief arising from the alleged misappropriation of Vermeg software and related information that Vermeg alleged was proprietary to Vermeg. In December, 2005, the Company entered into an agreement with Vermeg to settle the complaint. As part of the settlement and mutual release agreement, the Company made a one-time payment, which was expensed in the fourth quarter 2005, to Vermeg in the amount of \$4,250. The payment was for services previously rendered to the Company and for a perpetual pre-paid license to use certain Vermeg technology.

Note 10 - Income Taxes:

The federal and state income tax provision is summarized as follows:

Year Ended December 31,	2005	2004	2003
Current			
Federal	\$ 73,101	\$ 71,032	\$ 71,709
State	4,888	4,371	5,416
Foreign	2,658	1,311	588
	<u>80,647</u>	<u>76,714</u>	<u>77,713</u>
Deferred, including current deferred			
Federal	20,668	16,030	2,824
State	5,550	3,366	766
	<u>26,218</u>	<u>19,396</u>	<u>3,590</u>
Total income taxes	<u>\$ 106,865</u>	<u>\$ 96,110</u>	<u>\$ 81,303</u>

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, the amount ultimately paid upon resolution of issues raised may differ materially from the amount accrued. The examination and the resolution process may last longer than a year.

The effective income tax rate differs from the Federal income tax statutory rate due to the following:

Year Ended December 31,	2005	2004	2003
Statutory rate	35.00%	35.00%	35.00%
State taxes, net of Federal tax benefit	2.31	1.94	1.80
Foreign tax expense and tax rate differential	(0.01)	0.14	0.06
Research and development tax credit	(1.12)	(1.28)	(0.97)
Valuation allowance on capital losses and other, net	0.02	0.45	0.36
	<u>36.20%</u>	<u>36.25%</u>	<u>36.25%</u>

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Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$18,618 million at December 31, 2005. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. federal and state income taxes have been provided thereon. Upon distribution of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation, including the availability, or lack thereof, of foreign tax credits to reduce a portion of the U.S. liability.

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

Deferred income taxes for 2005, 2004, and 2003 reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Principal items comprising the deferred income tax provision are:

Year Ended December 31,	2005	2004	2003
Difference in financial reporting and income tax depreciation methods	\$ (287)	\$ 3,318	\$ 1,253
Reserves not currently deductible	1,048	1,391	628
Capitalized software currently deductible for tax purposes, net of amortization	21,294	12,150	2,982
State deferred income taxes	3,608	2,188	498
Revenue and expense recognized in different periods for financial reporting and income tax purposes	975	315	289
Other, net	(420)	34	(2,060)
	\$26,218	\$19,396	\$ 3,590

The net deferred income tax liability is comprised of:

Year Ended December 31,	2005	2004
Current deferred income taxes:		
Gross assets	\$ 7,318	\$ 5,892
Gross liabilities	—	—
	7,318	5,892
Long-term deferred income taxes:		
Gross assets	9,496	10,157
Gross liabilities	(58,989)	(32,891)
	(49,493)	(22,734)
Valuation allowance	(9,496)	(9,369)
	(58,989)	(32,103)
Net deferred income tax liability	\$(51,671)	\$(26,211)

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The valuation allowance against deferred tax assets at December 31, 2005 and 2004 are related to capital losses and net operating losses from certain domestic and foreign subsidiaries. Certain state tax statutes significantly limit the utilization of net operating losses for domestic subsidiaries. Furthermore, these net operating losses cannot be used to offset other subsidiaries net income.

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The tax effect of significant temporary differences representing deferred tax assets (liabilities) is:

<u>Year Ended December 31,</u>	<u>2005</u>	<u>2004</u>
Difference in financial reporting and income tax depreciation methods	\$ (8,610)	\$ (8,809)
Reserves not currently deductible	1,195	887
Capitalized software currently deductible for tax purposes, net of amortization	(50,086)	(23,581)
State deferred income taxes	3,515	1,599
Revenue and expense recognized in different periods for financial reporting and income tax purposes	2,603	3,406
Unrealized holding gain on investments	(160)	(447)
Other, net	(128)	734
Net deferred income tax liability	<u>\$ (51,671)</u>	<u>\$ (26,211)</u>

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 products and services, geographic areas, and major customers.

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

Private Banking and Trust provides investment processing, fund processing, and investment management programs to banks and other trust institutions located in the United States and Canada. Investment Advisors provides investment management programs to affluent investors through a network of independent registered investment advisors, financial planners and other investment professionals in the United States. Enterprises provides investment management programs that offer retirement solutions to corporations, unions, municipalities, and hospitals and an endowment and foundation solution for the not-for-profit market in the United States. Money Managers provides fund investment processing and institutional and separate account operational outsourcing solutions to traditional investment managers located in the United States and to investment managers worldwide of alternative asset classes such as hedge funds, fund of funds, and private equity funds. Investments in New Businesses provides investment management programs and fund processing to investment advisors, corporations, and money managers located outside the United States, investment processing solutions to institutions in the United Kingdom and continental Europe, as well as expanding our investment management programs to include affluent families residing in the United States.

Effective January 1, 2006, the Company reorganized its business segments in order 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 business lines will move from one business segment to another: the global institutional business within the Investments in New Businesses segment will move to the Enterprises segment, the franchise offering business of the Investment Advisors segment will move to the Investments in New Businesses segment, and the registered mutual fund processing business of the Private Banking & Trust segment will move to the Money Managers segment.

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The following tables highlight certain financial information about each of the Company's business segments for the years ended December 31, 2005, 2004, and 2003:

<u>2005</u>	<u>Private Banking and Trust</u>	<u>Investment Advisors</u>	<u>Enterprises</u>	<u>Money Managers</u>	<u>Investments In New Businesses</u>	<u>General and Admin.</u>	<u>Total</u>
Revenues	\$ 281,810	\$ 205,652	\$ 87,677	\$ 87,595	\$ 110,273		\$ 773,007
Operating							
Income (loss)	\$ 100,093	\$ 110,544	\$ 40,491	\$ 14,456	\$ (19,733)	\$ (33,898)	\$ 211,953
Other income, net							\$ 83,256
Income before income taxes							\$ 295,209
Depreciation and amortization	\$ 9,370	\$ 2,428	\$ 658	\$ 1,687	\$ 2,088	\$ 1,354	\$ 17,585
Capital expenditures	\$ 41,661	\$ 16,974	\$ 7,716	\$ 5,397	\$ 6,695	\$ 4,873	\$ 83,316
Total assets	\$ 162,154	\$ 81,992	\$ 32,396	\$ 52,608	\$ 116,686	\$ 211,311	\$ 657,147
<u>2004</u>	<u>Private Banking and Trust</u>	<u>Investment Advisors</u>	<u>Enterprises</u>	<u>Money Managers</u>	<u>Investments In New Businesses</u>	<u>General and Admin.</u>	<u>Total</u>
Revenues	\$ 290,605	\$ 180,351	\$ 69,816	\$ 76,907	\$ 74,590		\$ 692,269
Operating							
Income (loss)	\$ 114,527	\$ 98,684	\$ 32,048	\$ 14,663	\$ (20,319)	\$ (30,153)	\$ 209,450
Other income, net							\$ 55,681
Income before income taxes							\$ 265,131
Depreciation and amortization	\$ 8,828	\$ 2,453	\$ 748	\$ 1,376	\$ 1,636	\$ 1,142	\$ 16,183
Capital expenditures	\$ 27,720	\$ 9,214	\$ 4,188	\$ 2,897	\$ 4,534	\$ 2,645	\$ 51,198
Total assets	\$ 152,476	\$ 104,730	\$ 35,038	\$ 46,104	\$ 83,352	\$ 193,775	\$ 615,475

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2003	Private Banking and Trust	Investment Advisors	Enterprises	Money Managers	Investments In New Businesses	General and Admin.	Total
Revenues	\$ 311,534	\$ 156,089	\$ 62,051	\$ 55,274	\$ 51,285		\$ 636,233
Operating							
Income (loss)	\$ 125,746	\$ 85,681	\$ 29,366	\$ 9,105	\$ (18,102)	\$ (25,615)	\$ 206,181
Other income, net							\$ 18,103
Income before income taxes							\$ 224,284
Depreciation and amortization	\$ 9,612	\$ 3,111	\$ 850	\$ 1,236	\$ 1,308	\$ 671	\$ 16,788
Capital expenditures	\$ 20,089	\$ 5,308	\$ 2,413	\$ 1,686	\$ 3,109	\$ 1,524	\$ 34,129
Total assets	\$ 141,857	\$ 109,719	\$ 36,170	\$ 45,229	\$ 75,023	\$ 184,631	\$ 592,629

General and Administrative consists of expenses and assets attributable to corporate overhead groups that are not allocated to the business segments for internal financial reporting purposes. Unallocated assets primarily consist of cash and cash equivalents, deferred tax assets, the investment in LSV, and certain other shared services assets.

The following table presents the details of other income (expense):

For the Year Ended December 31,	2005	2004	2003
Equity in the earnings of unconsolidated affiliate	\$74,818	\$45,711	\$22,461
Net gain (loss) on investments	87	3,848	(6,927)
Interest income	8,367	4,545	4,363
Interest expense	(1,524)	(2,112)	(2,303)
Other income	1,508	3,689	509
	<u>\$83,256</u>	<u>\$55,681</u>	<u>\$18,103</u>

The following table presents revenues based on the location of the use of the products or services:

For the Year Ended December 31,	2005	2004	2003
United States	\$ 664,907	\$ 618,457	\$ 589,997
International operations	108,100	73,812	46,236
	<u>\$ 773,007</u>	<u>\$ 692,269</u>	<u>\$ 636,233</u>

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The following table presents assets based on their location:

	2005	2004	2003
United States	\$ 557,281	\$ 539,677	\$ 541,511
International operations	99,866	75,798	51,118
	<u>\$ 657,147</u>	<u>\$ 615,475</u>	<u>\$ 592,629</u>

Note 12 - Related Party Transactions:

The Company, either by itself or through its wholly-owned subsidiaries, is a party to Investment Advisory and Administration Agreements with regulated investment companies (RICs) and other company-sponsored investment products which are administered by the Company. These investment products are offered to clients of the Company and its subsidiaries. Under the Investment Advisory and Administration Agreements, the Company receives a fee for providing investment advisory, administrative, and accounting services. The investment advisory and administration fee is a fixed percentage, referred to as basis points, of the average daily net assets, subject to certain limitations. Investment advisory and administration fees received by the Company totaled \$340,939, \$307,439, and \$254,911, in 2005, 2004, and 2003, respectively. The Company is also a party to various agreements with several RICs which are advised and/or administered by the Company. The Company receives a fee for providing shareholder, administrative and distribution services pursuant to the provisions of various Rule 12b-1 Plans adopted by the RICs. These fees totaled \$48,476, \$43,906, and \$40,389 in 2005, 2004, and 2003, respectively. A portion of the transaction costs incurred by the RICs for securities transactions are directed to the Company's broker-dealer subsidiary in its capacity as an introducing broker-dealer. The Company recognized \$2,744, \$2,273, and \$14,142 in commissions during 2005, 2004, and 2003, respectively.

Note 13 - Quarterly Financial Data (Unaudited):

2005	For the Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	\$ 185,681	\$ 190,080	\$ 193,659	\$ 203,587
Income before income taxes	\$ 68,833	\$ 69,364	\$ 76,677	\$ 80,335
Net income	\$ 43,709	\$ 44,184	\$ 49,196	\$ 51,255
Basic earnings per common share	\$.43	\$.44	\$.49	\$.52
Diluted earnings per common share	\$.42	\$.43	\$.48	\$.50

2004	For the Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	\$ 167,161	\$ 169,162	\$ 172,978	\$ 182,968
Income before income taxes	\$ 61,818	\$ 64,633	\$ 71,227	\$ 67,453
Net income	\$ 39,409	\$ 41,204	\$ 45,407	\$ 43,001
Basic earnings per common share	\$.38	\$.40	\$.44	\$.42
Diluted earnings per common share	\$.37	\$.39	\$.43	\$.41

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Note 14 – Subsequent Event:

On January 24, 2006, the Company 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. The Company entered into the Guaranty Agreement in order to facilitate the Borrower's acquisition of certain partnership interests of LSV.

The Company and certain other investors are partners of LSV. Certain partners of LSV, excluding the Company, sold in the aggregate an eight percent interest (the Transferred Interests) in LSV to the Borrower, which is owned by certain 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 certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement dated January 24, 2006 (the Credit Agreement). LSV is party to the Credit Agreement to confirm certain representations, warranties and agreements.

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 a margin equal to 0.875 percent if the Borrower designates the tranche as a LIBOR loan, or (b) at a base rate, defined as the greater of (i) the Federal Funds Rate plus 0.5 percent and (ii) the Agent's prime rate if the Borrower designates the tranche as a base rate loan. The principal amount and interest of the term loan must be repaid by the Borrower in quarterly installments. In any event, the Borrower must pay the outstanding principal balance on the term loan in full by January 24, 2011. The Borrower may prepay the term loan in whole or in part at any time without penalty. The Borrower has pledged the Transferred Interests to the lenders as collateral to secure the term loan.

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 the Borrower 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 the Borrower, (b) non-payment by the Borrower or LSV of other Borrower debt or LSV debt, (c) certain events of bankruptcy or insolvency with respect to the Borrower 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 for 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 the Borrower and exercise all rights as secured creditors against the Borrower, the lenders have the right to seek payment from the Company of the Borrower'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 Transferred Interests.

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SEI INVESTMENTS COMPANY AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>		<u>(Deductions)</u>	<u>Balance at End of Year</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
Allowance for doubtful accounts:					
2005	\$ 1,800	\$ —	\$ —	\$ (280)	\$1,520
2004	1,700	100	—	—	1,800
2003	1,700	—	—	—	1,700
Deferred income tax valuation allowance:					
2005	\$ 9,369	\$ —	\$ 127	\$ —	\$9,496
2004	8,514	855	—	—	9,369
2003	7,842	672	—	—	8,514

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Identification of Directors

Information with respect to the members of the Board of Directors of the Company is set forth under the caption "Election of Directors" in the Company's definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Identification of Executive Officers

The Board of Directors of the Company has determined that the Company's executive officers within the meaning of Rule 3b-7 promulgated under the Securities Exchange Act of 1934, as amended, are as follows:

ALFRED P. WEST, JR., 63, has been the Chairman of the Board of Directors and Chief Executive Officer of the Company since its inception in 1968. Mr. West was President from June 1979 to August 1990.

ROBERT F. CRUDUP, 58, has been an employee of the Company since 1987. Mr. Crudup has been an Executive Vice President since January 2001.

CARL A. GUARINO, 48, has been an employee of the Company since April 1988. Mr. Guarino has been an Executive Vice President since March 2000 and a Senior Vice President since April 1988. Mr. Guarino was General Counsel from April 1988 to January 1994.

KATHY C. HEILIG, 47, has been an employee of the Company since November 1987. Ms. Heilig has been Chief Accounting Officer and Controller since May 1999. Ms. Heilig was Treasurer from May 1997 to May 2005.

N. JEFFREY KLAUDER, 53, has been Executive Vice President and General Counsel of the Company since August 2004. Prior to May 2000 and from September 2003 until August 2004, Mr. Klauder was a partner of Morgan Lewis & Bockius, LLP, a law firm, and from May 2000 until September 2003, Mr. Klauder was Managing Director and General Counsel of Safeguard Scientifics, Inc., an information technology and life sciences company.

EDWARD D. LOUGHLIN, 55, has been an employee of the Company since September 1979. Mr. Loughlin has been an Executive Vice President since May 1993 and a Senior Vice President since January 1988.

DENNIS J. MCGONIGLE, 45, has been an employee of the Company since August 1985. Mr. McGonigle has been the Chief Financial Officer since December 2002 and an Executive Vice President since July 1996 and a Senior Vice President since May 1995.

STEPHEN G. MEYER, 41, has been an employee of the Company since November 1992. Mr. Meyer has been a Senior Vice President since December 2005.

JOSEPH P. UJOBAL, 44, has been an employee of the Company since May 1998. Mr. Ujobal has been an Executive Vice President since May 2003 and a Senior Vice President since January 2001.

WAYNE M. WITHROW, 50, has been an employee of the Company since January 1990. Mr. Withrow has been an Executive Vice President since March 2000 and a Senior Vice President since January 1994. Mr. Withrow was Chief Information Officer from March 2000 to May 2002.

Identification of Other Corporate Officers

Other corporate officers of the Company elected by the Board include the following:

MARK E. NAGLE, 46, has been an employee of the Company since November 1996. Mr. Nagle has been a Senior Vice President since January 2001.

KEVIN P. ROBINS, 44, has been an employee of the Company since September 1992. Mr. Robins has been a Senior Vice President since January 1994. Mr. Robins was General Counsel from January 1994 to March 2000.

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MARK H. SAMUELS, 58, has been an employee of the Company since September 1992. Mr. Samuels has been a Senior Vice President since May 2001 and Director of Communications and Marketing since May 2000.

ROBERT M. SILVESTRI, 42, has been an employee of the Company since December 1988. Mr. Silvestri has been Treasurer since May 2005.

JUDITH E. TSCHIRGI, 52, has been an employee of the Company since May 1995. Ms. Tschirgi has been a Senior Vice President since January 2001 and Chief Information Officer since May 2002.

KENNETH G. ZIMMER, 49, has been an employee of the Company since April 1982. Mr. Zimmer has been a Senior Vice President since January 2001.

Section 16(a) Beneficial Ownership Reporting Compliance

Information with respect to the Section 16(a) compliance of the directors and executive officers of the Company is set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Code of Conduct

The Company has adopted a Code of Conduct applicable to all of its employees, including its executive officers, as well as a Code of Ethics for Senior Financial Officers. The Code of Conduct and the Code of Ethics for Senior Financial Officers is posted on our website, www.seic.com under the Corporate Governance section.

Item 11. Executive Compensation.

Information required by this item is set forth under the caption “Executive Compensation” in the Company’s definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this item is set forth under the caption “Ownership of Shares” in the Company’s definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

The following table provides information regarding the aggregate number of securities to be issued under all of our equity compensation plans upon exercise of outstanding options, warrants, and other rights and their weighted-average exercise price as of December 31, 2005. Material features of each of the plans reflected in the table are described below.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted –average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	15,496,964	\$ 31.07	4,094,988
Equity compensation plans not approved by security holders (2)	780,550	7.10	—
Total	16,277,514	\$ 29.92	4,094,988

- (1) Consists of: (i) the Amended and Restated 1998 Equity Compensation Plan, (ii) the SEI Investments Company Stock Option Plan, and (iii) the SEI Investments Company Stock Option Plan for Non-Employee Directors.
- (2) Consists solely of the SEI Investments Company 1997 Stock Option Plan (the “1997 Plan”). In December 1997, our Board of Directors adopted the 1997 Plan. At the time of its initial approval, the 1997 Plan was not submitted to, nor was it required to be submitted to, our shareholders for approval. The 1997 Plan was terminated by our Board of Directors in May 1998, and no further options may be granted under the 1997 Plan. However, options granted under the 1997 Plan prior to its termination continue in effect under the terms of the grant and the 1997 Plan. No officers or employee members of the Board of Directors of the Company or its affiliates were eligible to receive grants under the 1997 Plan.

The 1998 Equity Compensation Plan:

On May 21, 1998, the Board of Directors adopted the 1998 Equity Compensation Plan, and the Company’s shareholders approved the adoption of the 1998 Equity Compensation Plan in May 1998. The Board of Directors has made certain amendments to the 1998 Equity Compensation Plan after its adoption that did not require shareholder approval. The 1998 Equity Compensation Plan was most recently amended and restated in May 2003 (as so amended and restated, the “1998 Plan”). The 1998 Plan provides for grants of stock options (incentive stock options and nonqualified stock options), stock appreciation rights, restricted stock and performance units to all employees (including employees who are also directors) of the Company or its subsidiaries, consultants and advisors who perform valuable services to the Company or its subsidiaries and members of the Board of Directors who are not employees of the Company. The Company has not granted any incentive stock options, stock appreciation rights, restricted stock or performance units to date under the 1998 Plan.

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With respect to grants other than automatic grants to non-employee directors, the Stock Option Committee has the authority to determine the individuals who will receive grants, the type of grant, the number of shares and the terms of the grant, the time the grants will be made and the duration of any exercise or restriction period, and to deal with any other matters arising under the 1998 Plan.

Options granted under the 1998 Plan may be “incentive stock options,” which are intended to qualify with the requirements of Section 422 of the Code, and “nonqualified stock options” which are not intended to so qualify. Options are granted under the 1998 Plan 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 the 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.

In addition to any discretionary grants which may be made to non-employee members of the Board of Directors under the 1998 Plan, the 1998 Plan also provides that non-employee directors receive automatic grants of non-qualified stock options. Each non-employee director who first becomes a member of the Board of Directors after the effective date of the 1998 Plan receives a non-qualified stock option to purchase 8,000 shares. In addition, each non-employee director receives an annual non-qualified stock option to purchase 4,000 shares pursuant to the 1998 Plan. The exercise prices for these options are equal to the fair market value of the Company’s stock on the date of grant, the term is ten years from the date of grant, and the options become exercisable ratably over the first four anniversaries of the date of grant (unless otherwise determined by the Stock Option Committee).

If a change of control of the Company occurs, unless the Board of Directors determines otherwise, all outstanding stock options and stock appreciation rights will become fully exercisable, the restrictions and conditions on all outstanding restricted stock will lapse, and grantees holding performance units will receive a payment in settlement of the performance unit, in an amount determined by the Stock Option Committee, based on the grantee’s target payment for the performance period and the portion of the performance period that precedes the change of control. Upon a change of control in which the Company is not the surviving corporation (or survives as a subsidiary of another corporation), unless the Board of Directors determines otherwise, all outstanding stock options and stock appreciation rights will be assumed by, or replaced with comparable options or rights by, the surviving corporation. The Board of Directors may also provide in the event of a change of control that grantees will (i) surrender their outstanding options in exchange for cash or Company stock in an amount equal to the difference between the exercise price for options, or the base amount for stock appreciation rights, and the fair market value of the stock, or (ii) terminate outstanding options and stock appreciation rights after giving grantees the right to exercise such grants. The Stock Option Committee may limit the application of the change of control provisions to a grantee if certain conditions exist.

The Board of Directors may amend or terminate the 1998 Plan at any time, subject to shareholder approval, if required to comply with the provisions of the Internal Revenue Code, and the requirements of applicable securities laws and stock exchange rules. Unless terminated earlier by the Board of Directors or extended by the Board of Directors, with the approval of the Company’s shareholders, the 1998 Plan will terminate on May 20, 2008.

As of December 31, 2005, options to acquire 15,497,000 shares were outstanding under the 1998 Plan, out of a total of 14,403,000 shares of common stock reserved for issuance under the 1998 Plan. A total of approximately 4,095,000 shares of common stock remain available for issuance under the 1998 Plan for future grants.

The 1997 Stock Option Plan:

On December 4, 1997, the Board of Directors adopted the 1997 Stock Option Plan (the “1997 Plan”). At the time of its initial approval, the 1997 Plan was not submitted to, nor was it required to be submitted to, the Company’s shareholders for approval. The 1997 Plan was terminated by the Board of Directors in May 1998, and no further options may be granted. However, options granted under the 1997 Plan prior to its termination continue in effect under the terms of the grant and the 1997 Plan.

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The 1997 Plan only authorized the granting of nonqualified stock options. All employees (except officers and employee members of the Board of Directors) of the Company or its affiliates, consultants who perform services for the Company or its affiliates, and directors who are not employees of the Company were eligible to receive grants under the 1997 Plan. With respect to grants other than to non-employee directors, the Stock Option Committee had the authority to determine the individuals who would receive grants, the number of shares and the terms of the grant, the time the grants would be made and the duration of any exercise period, and deal with any other matters arising under the 1997 Plan.

All options that were granted under the 1997 Plan to employees and consultants were granted at the fair market value of the Company's common stock on the date of grant, become exercisable ratably upon the 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 1997 Plan provided that non-employee members of the Board of Directors would receive automatic grants of nonqualified stock options. Each non-employee director who first became a member of the Board of Directors after the effective date of the 1997 Plan, but before the termination of the 1997 Plan, received a non-qualified stock option to purchase 8,000 shares. In addition, each non-employee director received a non-qualified stock option to purchase 4,000 shares pursuant to the 1997 Plan. The exercise prices for these options were equal to the fair market value of the Company's stock on the date of grant, the term is ten years from the date of grant, and the options became exercisable ratably over the first four anniversaries of the date of grant (unless otherwise determined by the Stock Option Committee).

If the Company is consolidated or merged into another corporation, each optionee with an outstanding option under the 1997 Plan will receive, upon exercise of the option, the same consideration as other shareholders of the Company received in connection with the transaction. If all or substantially all of the assets of the Company are sold or exchanged (other than by merger or consolidation), each optionee will have the right to exercise the option in full within ten days after the Stock Option Committee provides notice of the right to exercise the option, and any portion of the option not exercised will lapse.

As of December 31, 2005, options to acquire 781,000 shares were outstanding under the 1997 Plan, out of a total of 2,286,000 shares of common stock reserved for issuance under the 1997 Plan.

Additional Stock Option Plans:

The Company has several other plans that have terminated and no further options may be granted under these plans. Grants made under the Plans will continue in effect under the terms of the grants and Plans. Options previously granted under these plans that have not yet expired or otherwise become unexercisable continue to be administered under such plans, and any portions that expire or become unexercisable for any reason shall be cancelled and be unavailable for future issuance.

Item 13. Certain Relationships and Related Transactions.

Information required by this item is set forth under the captions "Election of Directors," "Executive Compensation," and "Director Compensation" in the Company's definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information required by this item is set forth under the caption "Ratification or Appointment of Independent Public Accountants" in the Company's definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

- 1 and 2. Financial Statements and Financial Statement Schedules. The following is a list of the Consolidated Financial Statements of the Company and its subsidiaries and supplementary data filed as part of Item 8 hereof:

[Report of Independent Registered Public Accounting Firm](#)

[Consolidated Balance Sheets — December 31, 2005 and 2004](#)

[Consolidated Statements of Operations — For the years ended December 31, 2005, 2004, and 2003](#)

[Consolidated Statements of Shareholders' Equity and Comprehensive Income - For the years ended December 31, 2005, 2004, and 2003](#)

[Consolidated Statements of Cash Flows — For the years ended December 31, 2005, 2004, and 2003](#)

[Notes to Consolidated Financial Statements](#)

[Schedule II — Valuation and Qualifying Accounts and Reserves — For the years ended December 31, 2005, 2004, and 2003](#)

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits, Including Those Incorporated by Reference. The exhibits to this Report are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 March 16, 2006

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on dates indicated.

Date March 16, 2006

By /s/ Alfred P. West, Jr.
Alfred P. West, Jr.
Chairman of the Board,
Chief Executive Officer,
and Director

Date March 16, 2006

By /s/ Carmen V. Romeo
Carmen V. Romeo
Director

Date March 16, 2006

By /s/ Richard B. Lieb
Richard B. Lieb
Director

Date March 16, 2006

By /s/ William M. Doran
William M. Doran
Director

Date March 16, 2006

By /s/ Henry H. Porter, Jr.
Henry H. Porter, Jr.
Director

Date March 16, 2006

By /s/ Kathryn M. McCarthy
Kathryn M. McCarthy
Director

Date March 16, 2006

By /s/ Sarah W. Blumenstein
Sarah W. Blumenstein
Director

Date March 16, 2006

By /s/ Howard D. Ross
Howard D. Ross
Director

Date March 16, 2006

By /s/ Thomas W. Smith
Thomas W. Smith
Director

EXHIBIT INDEX

The following is a list of exhibits filed as part of this annual report on Form 10-K. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

- 3.1 Articles of Incorporation of the Registrant as amended on January 21, 1983. (Incorporated by reference to exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1982.)
- 3.1.2 Amendment to Articles of Incorporation of the Registrant, dated May 21, 1992. (Incorporated by reference to exhibit 3.1.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.)
- 3.1.3 Amendment to Articles of Incorporation of the Registrant, dated May 26, 1994. (Incorporated by reference to exhibit 3.1.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)
- 3.1.4 Amendment to Articles of Incorporation of the Registrant, dated November 21, 1996. (Incorporated by reference to exhibit 3.1.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)
- 3.1.5 Amendment to Articles of Incorporation of the Registrant, dated February 14, 2001. (Incorporated by reference to exhibit 3.1.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
- 3.2 Amended and Restated By-Laws. (Incorporated by reference to exhibit 3.2.2 to the Registrant's Current Report on Form 8-K dated February 1, 2006.)
- 4.1 Form of Certificate for Shares of Common Stock. (Incorporated by reference to exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.)
- 4.2 Rights Agreement dated December 10, 1998. (Incorporated by reference to exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)

Note: Exhibits 10.1 through 10.6 constitute the management contracts and executive compensatory plans or arrangements in which certain of the directors and executive officers of the Registrant participate.

- 10.1 Stock Option Plan, Amended, Restated and Renewed as of February 11, 1997. (Incorporated by reference to exhibit 99(a) to the Registrant's Registration Statement on Form S-8 (No. 333-63709) filed September 18, 1998.)
- 10.1.1 1997 Stock Option Plan. (Incorporated by reference to exhibit 99(b) to the Registrant's Registration Statement on Form S-8 (No. 333-63709) filed September 18, 1998.)
- 10.1.2 1997 Option Share Deferral Plan. (Incorporated by reference to exhibit 99(c) to the Registrant's Registration Statement on Form S-8 (No. 333-63709) filed September 18, 1998.)
- 10.1.3 1998 Equity Compensation Plan, Amended and Restated as of April 8, 2003. (Incorporated by reference to exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (No. 333-111224) filed December 16, 2003.)
- 10.3 Employee Stock Purchase Plan as Amended and Restated on October 15, 1997. (Incorporated by reference to exhibit 99(e) to the Registrant's Registration Statement on Form S-8 (No. 333-63709) filed September 18, 1998.)
- 10.4 SEI Capital Accumulation Plan. (Incorporated by reference to exhibit 99(e) to the Registrant's Registration Statement on Form S-8 (No. 333-41343) filed December 2, 1997.)
- 10.5 Stock Option Plan for Non-Employee Directors. (Incorporated by reference to exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.)
- 10.5.1 Amendment 1997-1 to the Stock Option Plan for Non-Employee Directors. (Incorporated by reference to exhibit 10.5.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.)
- 10.5.2 1997 Option Share Deferral Plan for Non-Employee Directors. (Incorporated by reference to exhibit 99(d) to the Registrant's Registration Statement on Form S-8 (No. 333-63709) filed September 18, 1998.)
- 10.6 Employment Agreement, dated May 25, 1979, between Alfred P. West, Jr. and the Registrant. (Incorporated by reference to exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.)

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10.11	Directors and Officers Liability Insurance Policy. (Incorporated by reference to exhibit 10.9 to the Registrant's Registration Statement on Form S-8 (No. 2-78133) filed June 25, 1982.)
10.17	Note Purchase Agreement, dated as of February 24, 1997, with respect to the issuance by the Registrant of \$20,000,000 7.20% Senior Notes, Series A, due February 24, 2007, and \$15,000,000 7.27% Senior Notes, Series B, due February 24, 2012. (Incorporated by reference to exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)
10.17.1	First Amendment, dated December 15, 1998, to Note Purchase Agreement, dated February 24, 1997. (Incorporated by reference to exhibit 10.17.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
10.17.2	Second Amendment, dated February 19, 2003, to Note Purchase Agreement, dated February 24, 1997. (Incorporated by reference to exhibit 10.17.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.)
10.18	Term Loan Agreement, dated June 26, 2001 between Firstar Bank, National Association and the registrant. (Incorporated by reference to exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.)
10.18.1	First Amendment to the Loan Agreement, dated September 15, 2003, between SEI Investments Company and U.S. Bank National Association. (Incorporated by reference to exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003.)
10.18.2	Second Amendment to the Loan Agreement, dated January 31, 2004, between SEI Investments Company and U.S. Bank National Association. (Incorporated by reference to exhibit 10.19.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.)
10.18.3*	Third Amendment to the Loan Agreement, dated January 20, 2006, between SEI Investments Company and U.S. Bank National Association.
10.20	\$200,000 Credit Agreement, dated September 14, 2004, among SEI Investments Company, the lenders thereto, JP Morgan Chase Bank, Wachovia Bank, National Association, Bank of America, N.A., Manufacturers and Traders Trust Company and PNC Bank, National Association. (Incorporated by reference to exhibit 99.1 to the Registrant's Current Report on Form 8-K dated September 14, 2004.)
10.20.1	First Amendment, dated January 24, 2006, to \$200,000 Credit Agreement, dated September 14, 2004. (Incorporated by reference to exhibit 10.2 to the Registrant's Current Report on Form 8-K dated January 30, 2006.)
10.21	Guaranty and Collateral Agreement, dated as of January 24, 2006 by and among SEI Investments Company, LSV Employee Group, LLC, the Grantors party thereto and LaSalle Bank National Association as Administrative Agent (including the underlying Credit Agreement dated as of January 24, 2006 by and among LSV Employee Group, LLC, LSV Asset Management, the Lenders party thereto and LaSalle Bank National Association as Administrative Agent to which the Guaranty and Collateral Agreement relates). (Incorporated by reference to exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 30, 2006.)
10.22*	Credit Facility, dated January 14, 2003 between Royal Bank of Canada and SEI Investments Canada Company, a subsidiary of SEI Investments Company.
10.22.1*	First Amendment, dated June 15, 2005 to Credit Facility, dated January 14, 2003 between Royal Bank of Canada and SEI Investments Canada Company, a subsidiary of SEI Investments Company.
10.22.2*	Second Amendment, dated February 20, 2006 to Credit Facility, dated January 14, 2003 between Royal Bank of Canada and SEI Investments Canada Company, a subsidiary of SEI Investments Company.
14	Code of Ethics for Senior Financial Officers. (Incorporated by reference to exhibit 14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.)
21*	Subsidiaries of the Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
23.2*	Consent of Independent Accountants.
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.
99	Miscellaneous exhibit. (Incorporated by reference to exhibit 99.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.)
99.1*	Financial Statements of LSV Asset Management.

* Filed herewith as an exhibit to this Annual Report on Form 10-K.

THIRD AMENDMENT TO LOAN AGREEMENT

This Third Amendment to Loan Agreement is made and entered into effective as of this 20th day of January, 2006 by and between SEI INVESTMENTS COMPANY, a Pennsylvania corporation ("Borrower"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association (the "Bank", and, together with the Borrower, the "Parties").

WITNESSETH:

WHEREAS, the Parties entered into a Loan Agreement effective as of July 26, 2001 (the "Loan Agreement");

WHEREAS, the Agreement was previously amended by the First Amendment to Loan Agreement, dated as of September 15, 2003 (the "First Amendment"); and

WHEREAS the Agreement was previously amended by the Second Amendment to Loan Agreement, dated as of January 31, 2004 (the "Second Amendment"); and

WHEREAS, the Parties hereby desire to further amend the Loan Agreement (this amendment herein sometimes called the "Third Amendment").

NOW, THEREFORE, the Parties agree as follows:

1. **Changes in Credit Facility.** Section "2(i)" of the Loan Agreement shall be amended and restated as follows:

(x) the guaranty by the Borrower of the obligations (not exceeding \$82,800,000 in aggregate principal amount) of LSV Employee Group, LLC arising under that certain \$82,800,000 credit agreement to be entered into prior to January 31, 2006 by such Person with LaSalle Bank, N.A. as Administrative Agent and the Lenders party thereto (as such credit agreement may be from time to time amended, restated or refinanced so long as the outstanding principal amount thereof is not increased by such amendment, restatement or refinancing) and obligations arising under interest rate hedging agreements in respect of a notional amount not exceeding \$41,400,000 entered into by LSV Employee Group, LLC as required by such credit.

2. **Effectiveness.** This Third Amendment shall be effective upon delivery to Bank of an original of this Third Amendment, duly executed by Borrower, along with (unless waived by the Bank) certified resolutions of Borrower's Board of Directors authorizing this Third Amendment.

3. **Representations, Warranties and Covenants.** The Borrower further represents and warrants that:

(A) This Third Amendment has been duly executed and delivered by Borrower, is authorized by all requisite corporate action of Borrower and is the legal, valid, binding and enforceable obligation of Borrower;

(B) The execution and delivery by the Borrower of this Third Amendment will not constitute a violation of any applicable law or a breach of any provision contained in Borrower's Articles or Certificate of Incorporation or By-Laws, or contained in any order of any court or any other governmental agency or in any agreement, instrument or document to which Borrower is a party or by which Borrower or any of its assets or properties are bound;

(C) Except as previously waived by the Bank in writing, there is outstanding no Event of Default or event which with the giving of notice and/or the passage of time, would constitute an Event of Default under the Loan Agreement, as of the effective date of and after giving effect to this Third Amendment; and

(D) All representations, warranties and covenants as to the Borrower set forth in the Loan Agreement, as amended, or any of the other Loan Documents, as applicable, shall be deemed restated in all material respects as of the date hereof.

4. **Miscellaneous.**

(A) As amended hereby and by the First and Second Amendments, the Loan Agreement shall remain in full force and effect, and all references in the Loan Agreement, as amended (or other Loan Documents issued pursuant to the Loan Agreement, as amended), shall mean such Loan Agreement as amended hereby and by the First and Second Amendments.

(B) Capitalized terms used but not defined herein shall have the same meanings herein as in the Loan Agreement, as amended.

(C) The Borrower shall reimburse Bank for all reasonable out-of-pocket costs and expenses, including, without limitation, reasonable attorneys' fees, incurred by Bank or for which the Bank becomes obligated in connection with or arising out of this Third Amendment.

(D) Except as amended hereby and by the First and Second Amendments, the Loan Agreement, as amended, shall be deemed confirmed and on-going in accord with its terms. Nothing herein, however, shall be deemed an acceptance or waiver as to proposed future changes in Borrower's business and structure that, without the Bank's consent and/or an additional amendment of the Loan Agreement, might otherwise be an Event of Default hereunder.

(E) This Third Amendment may be executed in counterparts, all of which constitute one instrument hereunder.

IN WITNESS WHEREOF, the parties have executed this Third Amendment as of the date noted above.

U.S. BANK N.A.

SEI INVESTMENTS COMPANY

By: /s/ Patrick McGraw
Patrick McGraw
Vice President

By: /s/ Kathy Heilig
Kathy Heilig
Controller

January 14, 2003

SEI Investments Canada Company
70 York Street
Suite 1600
Toronto, Ontario MSJ 1R9

Attention: Mr George Butcher

Dear Sirs:

Royal Bank of Canada (the "Bank") is pleased to offer to SEI Investments Canada Company (the "Borrower") the following facility (the "Credit Facility"), subject to the following terms and conditions.

1. DEFINITIONS:

The definitions attached hereto in Schedule "A" are incorporated in this agreement by reference as if set out in full herein (collectively this agreement and all schedules attached hereto, as amended from time to time, are referred to as the "Agreement"). Unless otherwise provided, all accounting terms used herein shall be interpreted in accordance with GAAP.

2. AMOUNT:

The amount available under the Credit Facility shall not exceed \$2,000,000 Canadian dollars or the Equivalent Amount in US dollars.

3. CREDIT FACILITY:

The Credit Facility is available by way of overdrafts in Canadian Dollars or US Dollar equivalent.

Each use of the Credit Facility is referred to as a "Borrowing". The face amount of each Borrowing outstanding shall be used to determine the amount of Borrowings outstanding under the Credit Facility at any time.

4. PURPOSE:

The Borrower shall use the Credit Facility to finance short-term, temporary operating requirements.

5. AVAILABILITY:

Borrowings under the Credit Facility are available on any Business Day through the Branch of Account, subject to the other terms and conditions of this Agreement and the following:

The Borrower may borrow, repay and re-borrow under the Credit Facility at any time, unless otherwise provided. The Credit Facility Amount is available at the sole discretion of the Bank and the Bank may, at any time and from time to time without notice, cancel any undrawn portion of the Credit Facility Amount.

6. INTEREST RATES:

The following rates shall apply to the Credit Facility:

- (a) Canadian Dollar Borrowings - Royal Bank Prime ("RBP")
- (b) US Dollar Borrowings - Royal Bank US Base Rate ("RBUSBR")

7. CALCULATION AND PAYMENT OF INTEREST:

On each borrowing by way of overdraft the Borrower shall pay Interest in the currency of the Borrowing monthly in arrears on the 1st day of each month.

Such interest will be calculated monthly and will accrue daily on the basis of the actual number of days elapsed and a year of 365 days. Any change in the annual RBP or RBUSBR rates shall be effective as of the opening of business on the day such change takes place.

8. TIME AND PLACE OF PAYMENT:

Payments of principal, interest, fees and all other amounts payable by the Borrower pursuant to this Agreement shall be paid at the Branch of Account. Each payment under this Agreement shall be made for value on the day such payment is due, provided that if any such day is not a Business Day such payment shall be deemed for all purposes of this Agreement to be due on the Business Day next following such day and all interest and other fees shall continue to secure until payment. Interest and fees payable under this Agreement are payable both before and after any or all of default, demand and judgment.

9. OVERDUE PAYMENTS:

Any amount of overdue hereunder in Canadian Dollars shall bear interest, payable on demand, at RBP + 1% per annum. Any amount overdue hereunder in US Dollars shall bear interest, payable on demand, at RBUSBR+1% per annum.

10. REPAYMENT OF CREDIT FACILITY:

All Borrowings shall be due and payable on demand by the Bank. Upon such demand, the Bank shall have no obligation to honour any cheques or other orders for payment, and the Borrower shall immediately pay all amounts outstanding under the Credit Facility.

11. EVIDENCE OF INDEBTEDNESS:

The Bank shall open and maintain at the Branch of Account accounts and records evidencing the Borrowings made available to the Borrower by the Bank under this Agreement. The Bank shall record the principal amount of each Borrowing, the payment of principal and interest and all other amounts owing to the Bank.

The Bank's amounts and records constitute, in the absence of manifest error, conclusive evidence of the indebtedness of the Borrower to the Bank.

The Borrower authorizes and directs the Bank to automatically debit any bank account of the Borrower for all amounts payable by the Borrower to the Bank including, without limitation, the repayment of all amounts due under this Agreement and all charges for the keeping of such bank account.

12. CONDITIONS PRECEDENT TO DISBURSEMENT:

The obligation of the Bank to make available the initial Borrowing is subject to and conditional upon the receipt, in form and substance satisfactory to the Bank, of:

- (a) a duly executed copy of this Agreement;
- (b) an incumbency certificate of the Borrower setting forth specimen signatures of the individuals authorized to execute this Agreement as of the date of execution hereof;
- (c) a certified copy of the constructing documents and by-laws of the Borrower;
- (d) a certified copy of the resolution of the sole shareholder of the Borrower relating to the Borrower's authority to execute, deliver and perform its obligations under this Agreement and the manner in which and by whom such an agreement is to be executed and delivered;
- (e) a duly executed copy of the Guarantee signed by SEI Investments Company (the "Guarantor");
- (f) a certified copy of the constating documents and by-laws of the Guarantor;
- (g) a certified copy of the resolution of the board of directors of the Guarantor relating to the Guarantor's authority to execute, deliver and perform its obligations under this Agreement and Guarantee and the manner in which and by whom such agreements are to be executed and delivered (Form# 222);
- (h) an incumbency certificate of the Guarantor setting forth specimen signatures of the individuals authorized to execute the Guarantee as of the date of execution hereof
- (i) an opinion of legal counsel to the Guarantor, substantially in the form of Schedule "B".
- (j) an opinion of legal counsel to the Borrower, substantially in the form of Schedule "C".

13. REPRESENTATION AND WARRANTIES:

The Borrower represents and warrants to the Bank, which representations and warranties are repeated as of the time of each Borrowing and the time at which each payment of interest or fees is due hereunder, that:

- (a) it is a corporation duly incorporated and validly existing under the laws of its jurisdiction of incorporation, and that it is duly registered or qualified to carry as business in all jurisdictions where the nature of its properties, assets or business makes such registration or qualification necessary or desirable;
- (b) the execution, delivery and performance of the Agreement have been duly authorized by all necessary actions and do not (i) violate any applicable law, regulation or rule by which it is bound, (ii) violate any provision of its constituting documents or by-laws, (iii) result in a breach of, or a default under, any agreement or instrument to which it is a party or by which it or any of its properties or assets may be bound or affected or (iv) result in the creation of any encumbrance on any of its properties or assets, except as herein specifically provided;
- (c) the Agreement constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms;
- (d) its most recent audited, consolidated financial statements fairly present in conformity with GAAP, the consolidated financial position of the Borrower as of the date thereof and its consolidated results of operations and cash flows for the fiscal year covered thereby, and since the date of such financial statements, there has occurred no material adverse change in the business or financial condition of the Borrower;
- (e) there is no action, litigation or legal proceeding pending or threatened against the Borrower or any of its assets or properties before any court or administrative agency which, if adversely determined, might (i) result in a material adverse change in the financial condition of the Borrower or its business, properties or other assets, or (ii) materially and adversely affect the ability of the Borrower to perform its obligations under this Agreement;
- (f) it is in compliance in all material respects with all Applicable Laws;
- (g) no consent, approval, order, authorization, licence, exemption or designation of or by any governmental or regulatory body or Person is required or advisable in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereby on its behalf, and no registration, qualification, designation, declaration or filing with any governmental or regulatory body or Person is necessary or desirable to enable or empower it to perform its obligations under the Agreement, except such as have been made or obtained, which are in full force and effect as of the date hereof;
- (h) it has filed all income tax returns which were required to be filed, paid or made provision for payment of all taxes and Potential Preferred Claims (including interest and penalties) which are due and payable, and provided adequate reserves for payment of any tax, the payment of which is being contested.

The representations and warranties made in this section shall continue in effect until payment and performance of all debts, liabilities and obligations under this Agreement.

14. COVENANTS:

Without affecting or limited the right of the Bank to terminate its commitment and demand all Borrowings under the Credit Facility, the Borrower covenants and agrees with the Bank, while this Agreement is in effect or any Borrowings are outstanding:

- (a) to advise the Bank of any change of ownership of the borrower, at least 60 calendar days before the said change is to take effect.
- (b) to provide the Bank with the following:
 - (i) annual audited financial statements of the Borrower, within 60 days of the Borrower's fiscal year-end;
 - (ii) Quarterly unaudited financial statements of the Guarantor, within 30 days of the end of each fiscal quarter;
 - (iii) annual audited financial statements of the Guarantor, within 60 days of the guarantor's fiscal year-end.

15. INDEMNITIES:

The Borrower hereby agrees to indemnify and hold the Bank and its directors, officers and employees harmless from and against any and all claims, suits, actions, debts, damages, costs, losses, obligations, judgments, charges, expenses and liabilities of any nature whatsoever (including reasonable legal fees on a solicitor and client basis) which are sustained or incurred as a consequence of:

- (a) any breach by the Borrower under any of the provisions of this Agreement or in any document or instrument delivered in connection herewith;
- (b) the Bank acting upon instructions given or agreements made over the telephone or by electronic transmission of any type (either relating only to the Borrower and the Bank

or involving crediting the accounts of third parties) with Persons reasonably believed by the Bank to have been acting on the Borrower's behalf.

It is the intention of the Borrower and the Bank that the provisions of this section shall supersede any other provisions in this Agreement which in any way limit the liability of the Borrower, and that the Borrower shall be liable for any obligations arising under this section even if the amount of the liability incurred exceeds the amount of the Borrowings. The obligations of the Borrower arising under this section are absolute and unconditional and shall not be affected by any act, omission, or circumstance whatsoever, whether or not occasioned by the fault of the Bank except in respect of gross negligence or wilful misconduct by the Bank. This section shall survive the repayment of the Borrowings and shall survive the transfer of any or all right, title and interest in and to the Borrower's property by the Borrower to any party, whether or not affiliated with the Borrower.

16. SUCCESSORS AND ASSIGNS:

This Agreement shall be binding upon and ensure to the benefit of the Bank and the Borrower and their respective successors and permitted assigns. The Borrower cannot assign or transfer all or any of its rights and obligations hereunder without the prior written consent of the Bank.

17. MISCELLANEOUS:

- (a) **Expenses.** The Borrower shall pay the reasonable fees (including, without limitation, all documentation fees charged by the Bank for use of its internal legal counsel) and expenses incurred by the Bank in connection with the operation of the Credit Facility including the enforcement of the Bank's rights hereunder and under the Security Documents or any other document delivered pursuant to this Agreement, whether or not any amounts are advanced hereunder.
- (b) **Limit on Rate of Interest.** The Borrower shall not be obligated to pay any interest under or in connection with this Agreement to the extent such interest exceeds the effective annual rate of interest on the credit advanced hereunder that would be lawfully permitted under the Criminal Code. For purposes of this section, "interest" and "credit advanced" have the meanings ascribed to such terms in the Criminal Code and the "effective annual rate of interest" shall be calculated in accordance with generally accepted actuarial practices and principles.
- (c) **Judgement Currency.** If for the purpose of obtaining judgement in any court in any jurisdiction with respect to this Agreement, it is necessary to convert into the currency of such jurisdiction (the "Judgement Currency") any amount due hereunder in any currency other than the Judgment Currency, then conversion shall be made at the rate of exchange prevailing on the Business Day before the day on which judgment is given. For this purpose "rate of exchange" means the rate at which the Bank would, on the relevant date, be prepared to sell similar amount of such currency in Toronto foreign exchange markets, against Judgment Currency, in accordance with normal banking procedures.

In the event that there is a change in the rate of exchange prevailing between the Business Day before the day on which the judgment is given and the date of payment of the amount due, the Borrower will, on the date of payment, pay such additional amounts as they may be necessary to ensure that the amount paid on such date is the amount in the Judgement Currency which, when converted at the rate of exchange prevailing on the date of payment, is the Amount due under this Agreement in such other currency together with interest at RBP and expenses (including reasonable legal fees on a solicitor client basis). Any additional amount due from the Borrower under this section will be due as a separate debt and shall not be affected by judgement being obtained for any other sums due under or in respect of this Agreement.

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- (d) **Notices.** Any notice or demand hereunder shall be given in writing by telecopier or letter, in each case addressed to an officer of the receiving party. A telecopier communication shall be deemed received on the date of transmission provided such transmission is received prior to 5.00 p.m. on a day on which the receiving party's office is open for normal business, and otherwise on the next such day. A letter shall be deemed received when hand-delivered to the receiving party, at the address shown herein or at such other address as the receiving party may notify the other from time to time. Each party shall be bound by any notice given hereunder and entitled to act in accordance therewith, unless otherwise agreed. The addresses of the parties for the purpose hereof shall be:

as to the Borrower: SEI Investments Canada Company
70 York Street
Suite 1600
Toronto, Ontario M5J 1S9
Attention: Mr. George A. Butcher
Telecopier: (416) 368-6288

as to the Bank: Royal Bank of Canada
RBC Global Services
Business Risk Management
11th Floor, South Tower
Royal Bank Plaza
200 Bay Street
Toronto, Ontario M5J 2J5
Attention: Manager, Credit
Telecopier: (416) 974-8668

or such other address for delivery as each party from time to time may notify the other as aforesaid.

- (d) **Set Off.** The Bank is authorized (but not obligated), at any time and without notice, to apply any credit balance (whether or not then due) to which the Borrower is then beneficially entitled on any account (in any currency) at any branch or office of the Bank in or towards satisfaction of the obligations and liabilities of the Borrower due to the Bank under this Agreement. For that purpose, the Bank is irrevocably authorized to use all or any part of any such credit balance to buy such other currencies as may be necessary to effect such application.
- (e) **Amendments and Waivers.** No amendment, modification or waiver of any provision of this Agreement of consent to any departure by the Borrower from any provision of this Agreement will in any event be effective unless it is in writing signed by the Borrower and the Bank, and then the amendment, modification, waiver or consent will be effective only in the specific instance, for the specific purpose and for the specific length of time for which it is given by the Bank. No failure to exercise and no delay in exercising on the part of the Bank, any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other right, power or privilege.
- (f) **Further Assurances.** The Borrower shall from time to time promptly upon the request of the Bank take such action and execute and deliver such further documents, as shall be reasonably required in order to fully perform the terms of, and to carry out the intention of, this Agreement.
- (g) **Severability.** If any provision of this Agreement is or becomes prohibited or unenforceable in any jurisdiction, such prohibition or unenforceability shall not invalidate or render unenforceable the provision concerned in any other jurisdiction nor invalidate, affect or impair any of the remaining provisions hereof.
- (h) **Governing Law and Submission to Jurisdiction.** This Agreement shall be construed in accordance with and governed by the laws of the Province of Ontario and of Canada applicable therein. The Borrower irrevocably submits to the non-exclusive jurisdiction of the courts of such Province and acknowledges the competence of such courts and irrevocably agrees to be bound by a judgment of any such court.

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- (i) **Whole Agreement.** This Agreement and any agreements delivered pursuant to or referred to in this Agreement constitute the whole and entire agreement between the parties in respect of the Credit Facility, and cancel and supersede any prior written or verbal agreements including undertakings, declarations or representations made with respect thereto.
 - (j) **Time.** Time shall be of the essence in all provisions of this Agreement.
 - (k) **Effective Date.** Except as otherwise provided in this Agreement, the date on which this Agreement becomes effective is the date appearing on the first page hereof.

Please acknowledge your acceptance of the above terms and conditions by signing the attached copy of this letter in the space provided below and returning it to the undersigned.

Yours truly,
ROYAL BANK OF CANADA

By: _____ /s/ Miko Niasim
Name/Title: _____ Manager, Credit

By: _____
Name/Title: _____

We acknowledge and accept the terms and conditions of this Agreement on the 21st day of October, 2003 which acceptance is effective as of the date first above written.

SEI INVESTMENTS CANADA COMPANY

By: _____ /s/ G. A. Butcher
Name/Title: _____ G. A. Butcher, Vice President, CFO
(seal)

By: _____
Name/Title: _____

June 15, 2005

SEI Investments Canada Company
70 York St. Suite 1600
Toronto, Ontario
M5J 1S9

Attention: Mr. Bahn Tran
Business Manager

Dear Bahn;

We refer to the letter agreement dated January 14, 2003 between SEI Investments Canada Company and Royal Bank of Canada (“Credit Agreement”). All capitalized terms used in this letter, if not otherwise defined herein, shall have the meanings set out in the Credit Agreement.

The following amendments are hereby made to the Credit Agreement:

Section 14(b)

- (i) Annual audited financial statements of the Borrower within 120 days of the Borrower’s fiscal year-end;

Section 17(c) Notices

As to the Bank: Royal Bank of Canada
Global Credit
Credit Transaction Management
12th Floor, South Tower
Royal Bank Plaza
200 Bay St.
Toronto, Ontario M5J 2J5

Attention Manager, Credit
Telecopier: 416-842-4020

Except as indicated herein, all terms and conditions of the Credit Agreement shall remain in full force and effect and are hereby ratified and confirmed in every respect.

Please acknowledge your agreement with the foregoing by executing the enclosed two (2) copies of this letter and returning one (1) fully executed copy to the Bank.

Yours truly,
ROYAL BANK OF CANADA

By: /s/ Donna Seto

Name: Donna Seto
Title: Authorized Signatory

/s/ Sabrina Borrison

Name: Sabrina Borrison
Title: Manager, Credit

February 21, 2006

SEI Investments Canada Company
70 York St. Suite 1600
Toronto, Ontario
M5J 1S9

Attention: Mr. Bahn Tran
Business Manager

Dear Bahn,

We refer to the letter agreement dated January 14, 2003 between SEI Investments Canada Company and Royal Bank of Canada ("Credit Agreement") and subsequent Amendment Letter dated June 15, 2005. All capitalized terms used in this letter, if not otherwise defined herein, shall have the meanings set out in the Credit Agreement.

The following amendments are hereby made to the Credit Agreement:

Section 14(b)

- (ii) Quarterly unaudited financial statements of the Guarantor, within 45 days of the end of each fiscal quarter;
- (iii) Annual audited financial statements of the Guarantor, within 120 days of the Guarantor's fiscal year-end.

Except as indicated herein, all terms and conditions of the Credit Agreement shall remain in full force and effect and are hereby ratified and confirmed in every respect.

Please acknowledge your agreement with the foregoing by executing the enclosed two (2) copies of this letter and returning one (1) fully executed copy to the Bank.

Yours truly,
ROYAL BANK OF CANADA

By: /s/ Karen Condon
Name: Karen Condon
Title: Authorized Signatory

/s/ Yvonne Ling
Name: Yvonne Ling
Title: Manager, Credit

We acknowledge and accept the terms and conditions of this Agreement on the 27 day of February, 2006 which acceptance is effective as of the date first above written.

SEI Investments Canada Company

By: /s/ Patrick Walsh
Name/Title: Patrick Walsh / President

By: /s/ George Butcher
Name/Title: George Butcher / SVP Finance & Administration

SUBSIDIARIES OF THE REGISTRANT

<u>NAME</u>	<u>JURISDICTION OF ORGANIZATION OR INCORPORATION</u>
SEI Investments Distribution Co.	Pennsylvania
SEI Investments Management Corporation	Delaware
SEI Capital Limited	Canada (Federal)
SEI Investments Developments, Inc.	Delaware
SEI Investments Global Funds Services	Delaware
SEI Investments Management Corporation Delaware, LLC	Delaware
SEI Trust Company	Pennsylvania
SEI Funds, Inc.	Delaware
SEI Investments, Inc.	Delaware
SEI Global Investments Corporation	Delaware
SEI Investments Canada Company	Canada (Federal)
SEI Advanced Capital Management, Inc.	Delaware
SEI Global Capital Investments, Inc.	Delaware
SEI Investments Global (Cayman), Ltd.	Cayman Islands, B. W. I.
SEI Investments Global, Limited	Ireland
SEI Investments Global Fund Services, Ltd.	Ireland
SEI Investments Argentina, S. A.	Argentina
SEI Global Holdings (Cayman) Inc.	Cayman Islands, B. W. I.
SEI Investments (South Africa) Limited	South Africa
SEI Primus Holding Corporation	Canada
SEI Investments Trustee & Custodial Services (Ireland) Limited	Ireland
SEI Private Trust Company	Pennsylvania
SEI Venture Capital Inc	Delaware
SEI Asset Korea Co., Ltd.	South Korea
SEI Investments Europe Limited	United Kingdom
SEI Investments (France) Company	France
SEI Investments – Unit Trust Management (UK) Ltd.	United Kingdom
Lartington Limited	Ireland
SEI Investments Global (Bermuda) Ltd.	Bermuda
SEI SIMC Holdings, LLC	Delaware
SIMC Subsidiary, LLC	Delaware
SEI Global Nominee Ltd.	United Kingdom
SEI Insurance Group, Inc.	Pennsylvania
SEI Global Services, Inc.	Delaware
SEI Franchise, Inc.	Delaware
SEI Investments (Asia), Limited	Hong Kong
SEI European Services Limited	United Kingdom

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 2-73997, 2-75629, 2-78133, 2-80841, 2-89659, 33-19952, 33-24595, 33-41602, 333-41343, 333-63709 and 333-111224) of SEI Investments Company of our report dated March 16, 2006 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 16, 2006

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 2-73997, 2-75629, 2-78133, 2-80841, 2-89659, 33-19952, 33-24595, 33-41602, 333-41343, 333-63709, and 333-111224) of SEI Investments Company of our report dated March 16, 2006 relating to the financial statements of LSV Asset Management, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 16, 2006

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

Date: March 16, 2006

/s/ Alfred P. West, Jr.

Alfred P. West, Jr.

Chairman and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

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

Date: March 16, 2006

/s/ Dennis J. McGonigle

Dennis J. McGonigle
Chief Financial Officer

SECTION 1350 CERTIFICATIONS

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

(1) The Company's Annual Report on Form 10-K for the annual period ended December 31, 2005 (the "Form 10-K") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

Date: March 16, 2006

Date: March 16, 2006

/s/ Alfred P. West, Jr.

/s/ Dennis J. McGonigle

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

Dennis J. McGonigle
Chief Financial Officer

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

**LSV Asset Management
Financial Statements
December 31, 2005**

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Report of Independent Auditors

To the Management Committee of LSV Asset Management

In our opinion, the accompanying balance sheets, statements of operations, statements of changes in partners' capital and cash flows present fairly, in all material respects, the financial position of LSV Asset Management (the "Partnership") at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 16, 2006

LSV Asset Management
Balance Sheets
December 31, 2005 and 2004
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 45,698	\$ 29,962
Advisory fee receivables, net of allowance for doubtful accounts of \$120 and \$240 (Note 2)	64,580	39,616
Interest receivable	110	77
Prepaid expenses and other current assets	135	201
Total current assets	<u>110,523</u>	<u>69,856</u>
Fixed assets, net of accumulated depreciation of \$645 and \$429 (Note 2)	486	675
Other assets	18	18
Total assets	<u>\$ 111,027</u>	<u>\$ 70,549</u>
Liabilities and Partners' Capital		
Accrued liabilities (Note 2)	\$ 7,613	\$ 4,395
Due to SEI Funds, Inc. (Note 5)	1,342	1,515
Total current liabilities	<u>8,955</u>	<u>5,910</u>
Commitments and contingencies (Note 3)		
Partners' capital	102,072	64,639
Total liabilities and partners' capital	<u>\$ 111,027</u>	<u>\$ 70,549</u>

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

LSV Asset Management
Statements of Operations
Years Ended December 31, 2005, 2004 and 2003

(in thousands of dollars)

	<u>2005</u>	<u>2004</u> <u>Unaudited</u>	<u>2003</u> <u>Unaudited</u>
Revenue			
Management fees	\$ 198,151	\$ 119,375	\$ 60,441
Other income	565	214	40
	<u>198,716</u>	<u>119,589</u>	<u>60,481</u>
Expenses			
Salaries and benefits	17,111	11,294	7,381
Data and processing	1,908	1,368	754
Consulting	466	1,083	1,615
Office occupancy and equipment expenses	512	443	332
Travel	778	607	413
Professional fees	354	364	272
Custody fees	322	27	—
Promotion	164	200	124
Depreciation	216	124	104
Other	1,128	594	426
Net income	<u>\$ 175,757</u>	<u>\$ 103,485</u>	<u>\$ 49,060</u>

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

LSV Asset Management
Statements of Changes in Partners' Capital
Years Ended December 31, 2005, 2004 and 2003

(in thousands of dollars)

	Partnership Capital
Balance, December 31, 2002 (Unaudited)	\$ 16,090
Net income*	49,060
Partnership distributions*	(33,375)
Receivable from partners*	(2,134)
Payments received from partners*	1,880
Balance, December 31, 2003 (Unaudited)	31,521
Net income*	103,485
Partnership distributions*	(67,409)
Receivable from partners*	(3,800)
Payments received from partners*	842
Balance, December 31, 2004	64,639
Net income	175,757
Partnership distributions	(140,914)
Receivable from partners	—
Payments received from partners	2,590
Balance, December 31, 2005	\$ 102,072

* Unaudited

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

LSV Asset Management
Statements of Cash Flows
Years Ended December 31, 2005, 2004 and 2003

(in thousands of dollars)

	<u>2005</u>	<u>2004</u> <u>Unaudited</u>	<u>2003</u> <u>Unaudited</u>
Cash flows from operating activities			
Net income	\$ 175,757	\$103,485	\$ 49,060
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	216	124	104
Provision for losses on receivables	(120)	240	—
Change in assets and liabilities			
Decrease (increase)			
Advisory fees and receivables	(24,844)	(20,156)	(10,790)
Interest receivable	(33)	(68)	—
Prepaid expenses and other current assets	66	25	(226)
Other assets	—	(11)	—
Increase (decrease)			
Accrued liabilities	3,218	1,964	49
Net cash provided by operating activities	<u>154,260</u>	<u>85,603</u>	<u>38,197</u>
Cash flows used in investing activities			
Purchases of fixed assets	(27)	(443)	(188)
Net cash used in investing activities	<u>(27)</u>	<u>(443)</u>	<u>(188)</u>
Cash flows from financing activities			
Due to SEI Funds, Inc. (net)	(173)	910	1,095
Partnership distributions	(140,914)	(67,409)	(33,375)
Change in receivable from partners	2,590	(2,958)	(254)
Net cash used in financing activities	<u>(138,497)</u>	<u>(69,457)</u>	<u>(32,534)</u>
Net increase in cash and cash equivalents	<u>15,736</u>	<u>15,703</u>	<u>5,475</u>
Cash and cash equivalents			
Beginning of year	<u>29,962</u>	<u>14,259</u>	<u>8,784</u>
End of year	<u>\$ 45,698</u>	<u>\$ 29,962</u>	<u>\$ 14,259</u>

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

LSV Asset Management
Notes to Financial Statements

(in thousands of dollars)

1. Background

LSV Asset Management (LSV or the Partnership) is a registered investment advisor that was formed in 1994 as a Delaware general partnership. SEI Funds, Inc. (a wholly-owned subsidiary of SEI Investments Company (SEI)) owns approximately 43 percent of the Partnership and the remaining portion (approximately 57 percent) is owned by LSV employees. LSV provides investment advisory services to institutions, including pension plans and investment companies. The purpose of the Partnership is to further develop and implement the Quantitative Value Analysis Method and Software and to market the Partnership's investment advisory services using these tools.

On June 30, 2003, Shleifer Corp.'s Partnership was transferred to a group of partners and employees.

On April 1, 2004, the General Partnership was amended to include McGuinness EHC LLC and Newman EHC LLC as partners. The partnership interest of each existing partner was diluted on a pro rata basis.

On July 1, 2004, certain partners exercised their right to acquire additional interest from SEI Funds, Inc. Certain partners paid SEI directly for the additional interest whereas certain partners elected to finance their purchase through LSV. Receivable from partners on the accompanying Statements of Changes in Partners' Capital represent amounts owed from certain partners that elected to finance the July 1, 2004 purchase of the additional interest through the Partnership. Interest receivable on the accompanying Balance Sheets includes a receivable totaling \$7 and \$32 at December 31, 2005 and 2004, respectively, from certain partners that elected to finance the July 1, 2004 purchase of the additional interest through the Partnership.

The business and affairs of LSV are managed under the direction of the management committee. The management committee consists of certain partners of the Partnership. The voting interest by each partner on the management committee differs from their partnership ownership percentage.

On January 1, 2006, the General Partnership Agreement was amended to include Mansharamani EHC LLC and Bruch EHC LLC. The partnership interest of each existing partner was diluted on a pro rata basis. On January 24, 2006 La Croix LLC and Vishny LLC sold a portion of their partnership interests to the LSV Employee Group, LLC. (Note 6).

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

LSV considers investment instruments purchased with an original maturity of three months or less to be Cash and cash equivalents. Cash and cash equivalents on the accompanying Balance Sheets include \$44,809 and \$29,000 at December 31, 2005 and 2004, respectively, invested in SEI Daily Income Trust, an open-ended registered investment company sponsored by SEI Investments Management Corporation (SIMC), a wholly-owned subsidiary of SEI.

LSV Asset Management
Notes to Financial Statements

(in thousands of dollars)

Allowance for Doubtful Accounts

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

Revenue Recognition and Related Receivables

Advisory fee receivables on the accompanying Balance Sheets represent cash receivables earned and billed, as well as earned but unbilled. Unbilled receivables result from timing differences between services provided and contractual billing schedules. Advisory fee receivables on the accompanying Balance Sheets consist of the following:

	<u>2005</u>	<u>2004</u>
Trade receivables	\$12,274	\$ 3,104
Unbilled receivables	52,426	36,752
	<u>64,700</u>	<u>39,856</u>
Less: Allowance for doubtful accounts	(120)	(240)
Total trade accounts receivable	<u>\$64,580</u>	<u>\$39,616</u>

Revenues from investment advisory services are recognized in the period in which services are performed and are calculated based on the month end net assets of portfolios under management.

Allocations of Net Income or Net Loss

In accordance with the Partnership Agreement, all partnership net profits or losses are allocated among the partners in accordance with their respective ownership interests. Such allocations are included in the "Partnership Capital" balance on the accompanying Statements of Changes in Partners' Capital.

Partnership Distributions

In accordance with the Partnership Agreement, partners' distributions are based upon the net quarterly cash flows of the partnership and are generally paid in the following quarter. Such distributions represent reductions of partners' capital and are included in the Statements of Changes in Partners' Capital. Included in Partnership distributions are taxes paid on a certain partner's behalf.

Guarantees and Indemnifications

In the ordinary course of business, the Partnership from time to time enters into contracts containing indemnification obligations of the Partnership. These obligations may require the Partnership to make payments to another party upon the occurrence of certain events including the failure by the partnership to meet its performance obligations under the contract. These contractual indemnification provisions are often standard contractual terms of the nature customarily found in the type of contracts entered into by the Partnership. In many cases, there are no stated or notional amounts included in the indemnification provisions. There are no amounts reflected on the accompanying Balance Sheets related to these indemnifications.

LSV Asset Management
Notes to Financial Statements

(in thousands of dollars)

Fixed Assets

Fixed assets consist of the following at December 31:

	<u>2005</u>	<u>2004</u>	Estimated Useful Lives
Equipment	\$ 273	\$ 198	3 to 5
Leasehold improvements	603	669	Lease Term
Furniture and fixtures	255	237	5
	1,131	1,104	
Less: Accumulated depreciation	(645)	(429)	
	<u>\$ 486</u>	<u>\$ 675</u>	

Fixed assets are recorded at historical cost. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives. 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.

Accrued Liabilities

Accrued liabilities on the accompanying Balance Sheets consist of the following:

	<u>2005</u>	<u>2004</u>
Accrued compensation	\$6,648	\$4,085
Accrued data and processing	423	160
Accrued other	542	150
Total	<u>\$7,613</u>	<u>\$4,395</u>

Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 statement. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially expose the Partnership to concentrations of credit risk consist primarily of cash equivalents 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 are maintained with institutions in excess of federally insured limits.

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 10 percent of total accounts receivable.

LSV Asset Management
Notes to Financial Statements

(in thousands of dollars)

Fair Value of Financial Instruments

The Partnership's financial instruments consist primarily of cash and cash equivalents. The book value of cash and cash equivalents, trade receivables and trade payables is considered to be representative of their fair value because of their short maturities. The recorded value of these financial instruments approximates their fair value at December 31, 2005 and 2004.

3. Commitments and Contingencies

The Partnership has entered into various operating leases for facilities. Some of these leases contain escalation clauses. The aggregate noncancellable minimum commitments at December 31, 2005 are as follows:

2006	\$222
2007	55
	<u>\$277</u>

Rent expense was \$415, \$355 and \$239 in 2005, 2004 (unaudited) and 2003 (unaudited), respectively.

4. Income Taxes

No federal or state income taxes are provided for by LSV as each partner is liable for income taxes on their respective share of LSV's taxable income, if any.

LSV's tax return is subject to examination by federal and state taxing authorities. If such examinations result in changes to LSV's taxable income, the tax liability of each partner would change accordingly.

5. Related Party Transactions

Under LSV's Partnership Agreement, SEI Funds, Inc. is responsible for performing various services to support LSV's advisory business. In connection with such services, SEI Funds, Inc. allocates certain of its costs including employee benefits and other general and administrative expenses to LSV. The amount payable to SEI Funds, Inc. is included in the Due to SEI Funds, Inc. balance on the accompanying Balance Sheets. The balance due to SEI Funds, Inc. is paid on a monthly basis and is noninterest bearing. Expenses of \$820, \$629 and \$483 were allocated from SEI Funds, Inc. to LSV during the year ended December 31, 2005, 2004 (unaudited) and 2003 (unaudited), respectively, related to this agreement. Included in the Due to SEI Funds Inc. balance is the allocated expenses and other costs paid on LSV's behalf. The Due to SEI Funds Inc. amounted to \$1,342 and \$1,515 at December 31, 2005 and 2004, respectively.

LSV is party to a number of portfolio investment advisory agreements with SIMC, SEI Global Asset Management Ltd., and SEI Investments Canada Company (all wholly-owned subsidiaries of SEI). Under these agreements, LSV receives an annual fee based on the assets under LSV's management in various SEI-sponsored funds. Total fees earned under these agreements were \$8,833, \$6,513 and \$4,750 in 2005, 2004 (unaudited) and 2003 (unaudited), respectively. The Advisory fee receivables balance on the accompanying Balance Sheets included \$974 and \$592 of such fees at December 31, 2005 and 2004, respectively.

LSV Asset Management
Notes to Financial Statements

(in thousands of dollars)

Following completion of eligibility requirements, LSV employees are able to participate in the Capital Accumulation Plan (CAP), a SEI-sponsored employee benefit plan. CAP is a tax-qualified defined contribution plan which provides retirement benefits, including provisions for early retirement and disability benefits, as well as a tax-deferred savings feature. Participants are vested in employer contributions at the time the contributions are made. All SEI contributions are discretionary and are made from available profits. The employer contribution expense is included in Salaries and benefits on the accompanying Statements of Operations.

Following completion of eligibility requirements, LSV employees are able to participate in a SEI employee stock purchase plan. The plan provides for offering of common stock to eligible employees at a price equal to 85 percent of the fair value at the end of the stock purchase period, as defined.

6. Subsequent Event

On January 24, 2006, certain Partners sold an aggregate eight percent interest in LSV to LSV Employee Group LLC (the Borrower), which is owned by certain current employees of LSV. In order to finance a portion of the purchase price for such interests, the Borrower obtained financing from LaSalle Bank National Association (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 is \$82,800 and is to be paid in quarterly installments and is due by January 11, 2011. The Borrower has pledged their interests as collateral to secure the term loan. SEI has entered into a guaranty and collateral agreement with the Borrower and the Agent. According to the terms and conditions of the guaranty agreement, SEI agreed to provide an unsecured guaranty to the lenders of all obligations to the Borrower under the credit agreement. LSV has entered into a guaranty and collateral agreement with the Borrower and the Agent. According to the terms and conditions of the guarantee, LSV has agreed to pay 51 percent of the distributable cash flow if payment has not been received in full from SEI Funds, Inc. within 30 days after delivery of it demand for payment.