

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999  
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 001-13459

AFFILIATED MANAGERS GROUP, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
-----

04-3218510  
-----

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification Number)

TWO INTERNATIONAL PLACE, BOSTON, MASSACHUSETTS 02110  
-----

(Address of principal executive offices)

(617) 747-3300  
-----

(Registrant's telephone number, including area code)

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

Number of shares of the Registrant's Common Stock outstanding at August 13, 1999: 23,282,747 including 1,492,079 shares of Class B Non-Voting Common Stock. Unless otherwise specified, the term Common Stock includes both Common Stock and Class B Non-Voting Common Stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	December 31, 1998	June 30, 1999
	-----	-----
		(unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 23,735	\$ 32,149
Investment advisory fees receivable .....	66,939	42,476
Other current assets .....	5,137	5,789
	-----	-----
Total current assets .....	95,811	80,414
Fixed assets, net .....	8,001	12,068
Equity investment in Affiliate .....	1,340	1,312
Acquired client relationships, net of accumulated amortization of \$13,870 and \$18,487 .....	169,065	192,246
Goodwill, net of accumulated amortization of \$23,191 and \$29,425 .....	321,409	391,105
Notes receivable from related parties .....	2,800	5,128
Other assets .....	6,908	8,121
	-----	-----
Total assets .....	\$ 605,334	\$ 690,394
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities .....	\$ 42,617	\$ 42,967
Notes payable to related parties .....	22,000	--
	-----	-----
Total current liabilities .....	64,617	42,967
Senior bank debt .....	190,500	174,000
Deferred taxes .....	10,410	14,797
Other long-term liabilities .....	1,204	1,297
Subordinated debt .....	800	800
	-----	-----
Total liabilities .....	267,531	233,861
Minority interest .....	24,148	24,286
Stockholders' equity:		
Convertible stock .....	30,992	--
Common stock .....	177	235
Additional paid-in capital on common stock .....	273,413	405,995
Accumulated other comprehensive income .....	16	(99)
Accumulated earnings .....	11,669	28,728
	-----	-----
Total stockholders' equity .....	316,267	434,859
Less treasury shares .....	(2,612)	(2,612)
Total stockholders' equity .....	313,655	432,247
	-----	-----
Total liabilities and stockholders' equity .....	\$ 605,334	\$ 690,394
	=====	=====

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1998	1999	1998	1999
Revenues .....	\$ 56,586	\$ 78,577	\$ 102,309	\$ 146,704
Operating expenses:				
Compensation and related expenses ...	19,463	26,292	36,078	50,714
Amortization of intangible assets ...	4,518	5,596	8,347	10,851
Depreciation and other amortization .	600	1,144	1,113	1,891
Selling, general and administrative .	7,857	13,312	14,640	23,169
Other operating expenses .....	1,915	1,995	3,205	3,994
	34,353	48,339	63,383	90,619
Operating income .....	22,233	30,238	38,926	56,085
Non-operating (income) and expenses:				
Investment and other income .....	(530)	(746)	(841)	(1,658)
Interest expense .....	3,929	2,811	7,003	6,256
	3,399	2,065	6,162	4,598
Income before minority interest and income taxes .....	18,834	28,173	32,764	51,487
Minority interest .....	(8,976)	(12,046)	(15,469)	(22,574)
Income before income taxes .....	9,858	16,127	17,295	28,913
Income taxes .....	3,943	6,612	6,918	11,854
Net income .....	\$ 5,915	\$ 9,515	\$ 10,377	\$ 17,059
Net income per share - basic .....	\$ 0.34	\$ 0.41	\$ 0.59	\$ 0.81
Net income per share - diluted .....	\$ 0.30	\$ 0.41	\$ 0.55	\$ 0.77
Average shares outstanding - basic .....	17,621,371	23,278,438	17,605,896	21,162,488
Average shares outstanding - diluted ...	19,716,449	23,427,243	18,935,919	22,068,094

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(IN THOUSANDS)  
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1998	1999	1998	1999
Net income .....	\$ 5,915	\$ 9,515	\$ 10,377	\$ 17,059
Foreign currency translation adjustment, net of taxes	2	(50)	38	(115)
Comprehensive income .....	\$ 5,917	\$ 9,465	\$ 10,415	\$ 16,944

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	For the Six Months Ended June 30,	
	1998	1999
	-----	-----
Cash flow from operating activities:		
Net income .....	\$ 10,377	\$ 17,059
Adjustments to reconcile net income to net cash flow from operating activities:		
Amortization of intangible assets .....	8,347	10,851
Depreciation and other amortization .....	1,113	1,891
Deferred income tax provision .....	--	4,387
Changes in assets and liabilities:		
(Increase) decrease in investment advisory fees receivable .....	(7,357)	33,644
Increase in other current assets .....	(245)	(342)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	9,412	(10,863)
Minority interest .....	3,693	138
	-----	-----
Cash flow from operating activities .....	25,340	56,765
	-----	-----
Cash flow used in investing activities:		
Purchase of fixed assets .....	(1,860)	(3,906)
Costs of investments, net of cash acquired .....	(64,000)	(104,068)
Distribution received from Affiliate equity investment .....	263	366
Increase in other assets .....	(689)	(1,269)
Loans to related parties .....	--	(2,328)
	-----	-----
Cash flow used in investing activities .....	(66,286)	(111,205)
	-----	-----
Cash flow from financing activities:		
Borrowings of senior bank debt .....	72,300	130,300
Repayments of senior bank debt .....	(17,500)	(146,800)
Repayments of notes payable .....	--	(22,000)
Issuance (repurchase) of equity securities .....	(5)	101,649
Debt issuance costs .....	(76)	(180)
	-----	-----
Cash flow from financing activities .....	54,719	62,969
Effect of foreign exchange rate changes on cash flow .....	38	(115)
Net increase in cash and cash equivalents .....	13,811	8,414
Cash and cash equivalents at beginning of period .....	22,766	23,735
	-----	-----
Cash and cash equivalents at end of period .....	\$ 36,577	\$ 32,149
	=====	=====
Supplemental disclosure of non-cash financing activities:		
Stock issued in acquisitions .....	\$ 30,992	\$ --

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

1. BASIS OF PRESENTATION

The consolidated financial statements of Affiliated Managers Group, Inc. (the "Company" or "AMG") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The year end condensed balance sheet data was derived from audited financial statements, but does not include all of the disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to the current year presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 includes additional information about AMG, its operations, and its financial position, and should be read in conjunction with this quarterly report on Form 10-Q.

2. ACQUISITIONS

On April 1, 1999, the Company completed an investment in substantially all of the ownership interests in The Managers Funds LLC, which serves as the adviser to a family of nine equity and fixed income no-load mutual funds. This transaction was accounted for under the purchase method of accounting.

3. INCOME TAXES

A summary of the provision for income taxes is as follows (in thousands):

		Three Months Ended June 30,	
		----- 1998 -----	----- 1999 -----
Federal:	Current.....	\$ --	\$ 3,814
	Deferred.....	3,371	1,725
State:	Current.....	91	701
	Deferred.....	481	372
		-----	-----
Provision for income taxes.....		\$ 3,943	\$ 6,612
		=====	=====

4. EARNINGS PER SHARE

The calculation for the basic earnings per share is based on the weighted average of common shares outstanding during the period. The calculation for the diluted earnings per share is based on the weighted average of common and common equivalent shares outstanding during the period. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations.

	Three Months Ended June 30,	
	1998	1999
Numerator:		
Net income .....	\$ 5,915,000	\$ 9,515,000
Denominator:		
Average shares outstanding - basic .....	17,621,371	23,278,438
Convertible stock .....	1,750,942	--
Stock options and unvested restricted stock	344,136	148,805
	-----	-----
Average shares outstanding - diluted .....	19,716,449	23,427,243
	=====	=====
Net income per share:		
Basic .....	\$ 0.34	\$ 0.41
Diluted .....	\$ 0.30	\$ 0.41

In March 1998, the Company issued 1,750,942 shares of Series C Convertible Stock in completing its investment in Essex Investment Management Company, LLC. Each share converted into one share of Common Stock on March 20, 1999. The shares of Common Stock converted on that date have been included in the calculation of basic shares outstanding for the three months ended June 30, 1999.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

WHEN USED IN THIS FORM 10-Q AND IN OUR FUTURE FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, IN OUR PRESS RELEASES AND IN ORAL STATEMENTS MADE WITH THE APPROVAL OF AN AUTHORIZED EXECUTIVE OFFICER, THE WORDS OR PHRASES "WILL LIKELY RESULT", "ARE EXPECTED TO", "WILL CONTINUE", "IS ANTICIPATED", "BELIEVES", "ESTIMATE", "PROJECT" OR SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES, INCLUDING THOSE DISCUSSED UNDER THE CAPTION "BUSINESS-CAUTIONARY STATEMENTS" IN OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998, THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM HISTORICAL EARNINGS AND THOSE PRESENTLY ANTICIPATED OR PROJECTED. WE WISH TO CAUTION READERS NOT TO PLACE UNDUE RELIANCE ON ANY SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE MADE. WE WISH TO ADVISE READERS THAT THE FACTORS UNDER THE ABOVE DESCRIBED CAPTION "BUSINESS - CAUTIONARY STATEMENTS" COULD AFFECT OUR FINANCIAL PERFORMANCE AND COULD CAUSE OUR ACTUAL RESULTS FOR FUTURE PERIODS TO DIFFER MATERIALLY FROM ANY OPINIONS OR STATEMENTS EXPRESSED WITH RESPECT TO FUTURE PERIODS IN ANY CURRENT STATEMENTS.

IN ADDITION, THE DISCUSSION AND ANALYSIS WITH RESPECT TO THE YEAR 2000 (AS DESCRIBED MORE FULLY BELOW), INCLUDING (I) OUR EXPECTATIONS OF WHEN ALL RELEVANT INTERNAL AND EXTERNAL SYSTEMS WILL BE ABLE TO HANDLE DATES BEYOND 1999 (GENERALLY DESCRIBED AS "YEAR 2000 COMPLIANCE"), (II) OUR ESTIMATES OF THE COSTS INVOLVED IN ACHIEVING YEAR 2000 COMPLIANCE AND (III) OUR BELIEF THAT THE COSTS WILL NOT BE MATERIAL TO OPERATING RESULTS, ARE BASED ON OUR ESTIMATES WHICH, IN TURN, ARE BASED UPON A NUMBER OF ASSUMPTIONS REGARDING FUTURE EVENTS, INCLUDING THIRD PARTY MODIFICATION PLANS AND THE AVAILABILITY OF CERTAIN RESOURCES. THERE CAN BE NO GUARANTEE THAT THESE ESTIMATES WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM OUR ESTIMATES. SPECIFIC FACTORS WHICH MIGHT CAUSE SUCH MATERIAL DIFFERENCES WITH RESPECT TO THE YEAR 2000 INCLUDE, BUT ARE NOT LIMITED TO, THE FAILURE OF THIRD PARTY PROVIDERS TO ACHIEVE REPRESENTED OR STATED LEVELS OF YEAR 2000 COMPLIANCE, AVAILABILITY AND COST OF PERSONNEL TRAINED IN THIS AREA, THE ABILITY TO LOCATE AND CORRECT ALL RELEVANT COMPUTER CODES, AND SIMILAR UNCERTAINTIES.

WE WILL NOT UNDERTAKE AND WE SPECIFICALLY DISCLAIM ANY OBLIGATION TO RELEASE PUBLICLY THE RESULT OF ANY REVISIONS WHICH MAY BE MADE TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS OR TO REFLECT THE OCCURRENCE OF EVENTS, WHETHER OR NOT ANTICIPATED.

## OVERVIEW

We buy and hold equity interests in mid-sized investment management firms (our "Affiliates") and currently derive all of our revenues from those firms. We hold investments in 14 Affiliates that in aggregate managed \$70.9 billion in assets at June 30, 1999. Our most recent investments were in Davis Hamilton Jackson & Associates, L.P. ("DHJA") in December 1998, Rorer Asset Management, LLC ("Rorer") in January 1999 and The Managers Funds LLC ("Managers") in April 1999.

We have a revenue sharing arrangement with each of our Affiliates (other than Managers) which allocates a specified percentage of revenues (typically 50-70%) for use by management of that Affiliate in paying operating expenses, including salaries and bonuses (the "Operating Allocation"). The remaining portion of revenues of each such Affiliate, typically 30-50% (the "Owners' Allocation"), is allocated to the owners of that Affiliate (including AMG), generally in proportion to their ownership of the Affiliate. One of the purposes of our revenue sharing arrangements is to provide ongoing incentives for the managers of these Affiliates by allowing them:

- - to participate in their firm's growth through their compensation from the Operating Allocation,
- - to receive a portion of the Owners' Allocation based on their ownership interest in the Affiliate, and
- - to control operating expenses, thereby increasing the portion of the Operating Allocation which is available for growth initiatives and bonuses for management of such Affiliate.

Under the revenue sharing arrangements, the managers of our Affiliates have an incentive to both increase revenues of the Affiliate (thereby increasing the Operating Allocation and their Owners' Allocation) and to control expenses of the Affiliate (thereby increasing the excess Operating Allocation).

The revenue sharing arrangements allow us to participate in the revenue growth of our Affiliates because we receive a portion of the additional revenue as our share of the Owners' Allocation. However, we participate in that growth to a lesser extent than the managers of our Affiliates, because we do not share in the growth of the Operating Allocation.

Under the organizational documents of the Affiliates (other than Managers), the allocations and distributions of cash to us generally take priority over the allocations and distributions to the other owners of the Affiliates. This further protects us if there are any expenses in excess of the Operating Allocation of an Affiliate. Thus, if an Affiliate's expenses exceed its Operating Allocation, the excess expenses first reduce the portion of the Owners' Allocation allocated to the Affiliate's management owners, until that portion is eliminated, and then reduce the portion allocated to us. Unlike all other Affiliates, Managers is not subject to a revenue sharing arrangement. As a result, we participate fully in any increase or decrease in the revenues or expenses of Managers.

The portion of our Affiliates' revenues which is included in their Operating Allocation and retained by them to pay salaries, bonuses and other operating expenses, as well as the portion of our Affiliates' revenues which are included in their Owners' Allocation and distributed to us and the other owners of the Affiliates, are included as "revenues" on our Consolidated Statements of Operations. The expenses of our Affiliates which are paid out of the Operating Allocation, as well as our holding company expenses which we pay out of the amounts of the Owners' Allocation which we receive from the Affiliates, are both included in "operating expenses" on our Consolidated Statements of Operations. Since Managers is not subject to a revenue sharing arrangement, all revenues and expenses of Managers are consolidated into the revenues and operating expenses in our Consolidated Statements of Operations. The portion of our Affiliates' revenues which is allocated to owners of the Affiliates other than us is included in "minority interest" on our Consolidated Statements of Operations.

The EBITDA Contribution of an Affiliate represents the Owners' Allocation of that Affiliate allocated to AMG (or, in the case of Managers, the income allocated to AMG) before interest, taxes, depreciation and amortization of that Affiliate. EBITDA Contribution does not include our holding company expenses.

Our revenues are generally derived from the provision of investment management services for fees by our Affiliates. Investment management fees are usually determined as a percentage fee charged on periodic values of a client's assets under management. Certain of the Affiliates bill advisory fees for all or

a portion of their clients based

upon assets under management valued at the beginning of a billing period ("in advance"). Other Affiliates bill advisory fees for all or a portion of their clients based upon assets under management valued at the end of the billing period ("in arrears"), while mutual fund clients are billed based upon daily assets. Advisory fees billed in advance will not reflect subsequent changes in the market value of assets under management for that period. Conversely, advisory fees billed in arrears will reflect changes in the market value of assets under management for that period. In addition, several of the Affiliates charge performance-based fees to certain of their clients; these performance-based fees result in payments to the applicable Affiliate if specified levels of investment performance are achieved. All references to "assets under management" include assets directly managed as well as assets underlying overlay strategies which employ futures, options or other derivative securities to achieve a particular investment objective.

Our level of profitability will depend on a variety of factors including principally: (i) the level of Affiliate revenues, which is dependent on the ability of our existing and future Affiliates to maintain or increase assets under management by maintaining their existing investment advisory relationships and fee structures, marketing their services successfully to new clients, and obtaining favorable investment results; (ii) a variety of factors affecting the securities markets generally, which could potentially result in considerable increases or decreases in the assets under management at our Affiliates; (iii) the receipt of Owners' Allocation, which is dependent on the ability of our existing and future Affiliates to maintain certain levels of operating profit margins; (iv) the availability and cost of the capital with which we finance our existing and new investments; (v) our success in attracting new investments and the terms upon which such transactions are completed; (vi) the level of intangible assets and the associated amortization expense resulting from our investments; (vii) the level of expenses incurred for holding company operations, including compensation for its employees; and (viii) the level of taxation to which we are subject. Each of the foregoing are, to some extent, dependent on factors (including general securities market conditions, as noted above) which are not in our control.

Assets under management were \$70.9 billion at June 30, 1999 versus \$64.2 billion at March 31, 1999 and \$57.7 billion at December 31, 1998. The increase in assets under management during the quarter was partially related to the closing of our investment in Managers (\$1.7 billion) in April 1999. During the quarter net client cash flows for directly managed assets contributed \$997.4 million of the increase while overlay assets (which generally carry lower fees than directly managed assets) declined \$404.0 million. Positive investment performance accounted for the remaining \$4.4 billion increase in assets under management during the quarter. Year to date growth was driven by our investments in Rorer (\$4.4 billion) and Managers and \$1.4 billion of net client cash flows from directly managed assets (offset by \$1.5 billion in declines in overlay assets). Positive investment performance of \$7.2 billion increased assets under management year to date.

Our investments have been accounted for under the purchase method of accounting under which goodwill is recorded for the excess of the purchase price for the acquisition of interests in Affiliates over the fair value of the net assets acquired, including acquired client relationships.

As a result of our investments, intangible assets, consisting of acquired client relationships and goodwill, constitute a substantial percentage of our consolidated assets. As of June 30, 1999, our total assets were approximately \$690.4 million, of which approximately \$192.2 million consisted of acquired client relationships and \$391.1 million consisted of goodwill.

The amortization period for intangible assets for each investment is assessed individually, with amortization periods for our investments to date ranging from eight to 28 years in the case of acquired client relationships and 15 to 35 years in the case of goodwill. In determining the amortization period for intangible assets acquired, we consider a number of factors including: the firm's historical and potential future operating performance and rate of attrition among clients; the stability and longevity of existing client relationships; the firm's recent, as well as long-term, investment performance; the characteristics of the firm's products and investment styles; the stability and depth of the firm's management team and the firm's history and perceived franchise or brand value. We perform a quarterly evaluation of intangible assets on an investment-by-investment basis to determine whether there has been any impairment in their carrying value or their useful lives. If impairment is indicated, then the carrying amount of intangible assets, including goodwill, will be reduced to their fair values.

While amortization of intangible assets has been charged to the results of operations and is expected to be a continuing material component of our

operating expenses, management believes it is important to distinguish this

expense from other operating expenses since such amortization does not require the use of cash. Because of this, and because our distributions from our Affiliates are based on their Owners' Allocation, we have provided additional supplemental information in this report for "cash" related earnings, as an addition to, but not as a substitute for, measures related to net income. Such measures are (i) EBITDA, which we believe is useful to investors as an indicator of our ability to service debt, to make new investments and meet working capital requirements, and (ii) EBITDA as adjusted, which we believe is useful to investors as another indicator of funds available which may be used to make new investments, to repay debt obligations, to repurchase shares of our Common Stock or pay dividends on our Common Stock (although the Company has no current plans to pay dividends).

#### THE THREE MONTHS ENDED JUNE 30, 1999 AS COMPARED TO THE THREE MONTHS ENDED JUNE 30, 1998

The Company had net income of \$9.5 million for the quarter ended June 30, 1999 compared to net income of \$5.9 million for the quarter ended June 30, 1998. The increase in net income resulted primarily from the growth in EBITDA contribution from existing Affiliates and also from investments in new Affiliates. The Company invested in DHJA, Rorer and Managers on December 31, 1998, January 6, 1999, and April 1, 1999, respectively.

Total revenues for the quarter ended June 30, 1999 were \$78.6 million, an increase of \$22.0 million over the quarter ended June 30, 1998, primarily as a result of the investments in new Affiliates and also from the growth in revenues from existing Affiliates.

Total operating expenses increased by \$13.9 million to \$48.3 million for the quarter ended June 30, 1999 from \$34.4 million for the quarter ended June 30, 1998. Compensation and related expenses increased by \$6.8 million, selling, general and administrative expenses increased by \$5.5 million, and amortization of intangible assets increased by \$1.1 million. The increases in operating expenses were primarily due to the investments in the new Affiliates and also from the growth in the Operating Allocation related to the growth in revenues from existing Affiliates.

Interest expense decreased by \$1.1 million to \$2.8 million for the quarter ended June 30, 1999 from \$3.9 million for the quarter ended June 30, 1998. The reduction in interest expense was partially from repayments of senior bank debt generated from the net proceeds from our public offering of Common Stock in March 1999 (as described below) and cash flow from ongoing operations, offset by borrowings related to new investments. In addition, interest expense decreased due to a favorable interest rate environment.

Minority interest increased by \$3.0 million to \$12.0 million for the quarter ended June 30, 1999 from \$9.0 million for the quarter ended June 30, 1998. This increase was primarily a result of the addition of new Affiliates and also from the growth in revenues from existing Affiliates as described above.

Income tax expense was \$6.6 million for the quarter ended June 30, 1999 compared to \$3.9 million for the quarter ended June 30, 1998. The change in tax expense was primarily related to an increase in income before taxes.

EBITDA increased by \$6.8 million to \$25.7 million for the quarter ended June 30, 1999 from \$18.9 million for the quarter ended June 30, 1998, primarily as a result of the investments in new Affiliates and also from the growth in revenues from existing Affiliates as described above.

EBITDA as adjusted increased by \$5.3 million to \$16.3 million for the quarter ended June 30, 1999 from \$11.0 million for the quarter ended June 30, 1998 as a result of the factors affecting net income as described above.

#### THE SIX MONTHS ENDED JUNE 30, 1999 AS COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1998

The Company had net income of \$17.1 million for the six months ended June 30, 1999 compared to net income of \$10.4 million for the six months ended June 30, 1998. The increase in net income resulted mostly from EBITDA contribution from new investments made during and subsequent to the first six months of 1998. The Company invested in Essex, DHJA, Rorer and Managers on March 20, 1998, December 31, 1998, January 6, 1999 and April 1, 1999, respectively.

Total revenues for the six months ended June 30, 1999 were \$146.7 million, an increase of \$44.4 million over the six months ended June 30, 1998, primarily as a result of the investments in new Affiliates.

Total operating expenses increased by \$27.2 million to \$90.6 million for the six months ended June 30, 1999 from \$63.4 million for the six months ended June 30, 1998. Compensation and related expenses increased by \$14.6 million, selling, general and administrative expenses increased by \$8.6 million, amortization of intangible assets increased by \$2.6 million, and other operating expenses increased by \$789,000. The increases in operating expenses are primarily due to the investments in the new Affiliates as described above.

Interest expense decreased by \$747,000 to \$6.3 million for the six months ended June 30, 1999 from \$7.0 million for the six months ended June 30, 1998. The reduction in interest expense was partially from repayments of senior bank debt generated from the net proceeds from our public offering of Common Stock in March 1999 (as described below) and cash flow from ongoing operations, offset by borrowings related to new investments. In addition, interest expense decreased due to a favorable interest rate environment.

Minority interest increased by \$7.1 million to \$22.6 million for the six months ended June 30, 1999 from \$15.5 million for the six months ended June 30, 1998. This increase is primarily a result of the addition of new Affiliates as described above.

Income tax expense was \$11.9 million for the six months ended June 30, 1999 compared to \$6.9 million for the six months ended June 30, 1998. The change in tax expense was primarily related to an increase in income before taxes.

EBITDA increased by \$14.2 million to \$47.9 million for the six months ended June 30, 1999 from \$33.8 million for the six months ended June 30, 1998, primarily as a result of the investments in new Affiliates as described above.

EBITDA as adjusted increased by \$10.0 million to \$29.8 million for the six months ended June 30, 1999 from \$19.8 million for the six months ended June 30, 1998 as a result of the factors affecting net income as described above.

#### LIQUIDITY AND CAPITAL RESOURCES

We have met our cash requirements primarily through cash generated by operating activities, bank borrowings, and the issuance of equity and debt securities in public and private placement transactions (such as the public offering described below). We anticipate that we will use cash flow from our operating activities to repay debt and to finance our working capital needs and will use bank borrowings and issue equity and debt securities to finance future investments. Our principal uses of cash have been to make investments (such as the acquisition of The Managers Funds LLC), to retire indebtedness, repurchase shares and to support our and our Affiliates' operating activities. We expect that our principal use of funds for the foreseeable future will be for additional investments, repayments of debt, including interest payments on outstanding debt, distributions to owners of Affiliates other than us, additional investments in existing Affiliates, including upon management owners' sales of their retained equity to us, and for working capital purposes. We do not expect to make commitments for material capital expenditures.

On March 3, 1999, the Company completed a public offering of Common Stock. In the offering 5,529,954 shares of Common Stock were sold, of which 4,000,000 shares were sold by the Company and 1,529,954 shares were sold by selling stockholders. AMG used the net proceeds from the offering to reduce indebtedness under our credit facility (as described below) and did not receive any proceeds from the sale of Common Stock by the selling stockholders.

On April 1, 1999, we financed our acquisition of The Managers Funds LLC with a borrowing under our credit facility. At June 30, 1999, we had outstanding borrowings of senior debt under that credit facility of \$174 million and the ability to borrow an additional \$156 million. We have the option, with the consent of our lenders, to increase the facility by another \$70 million to a total of \$400 million. Our credit facility bears interest at either LIBOR plus a margin ranging from .50% to 2.25% or the Prime Rate plus a margin ranging up to 1.25% and matures during December 2002. We pay a commitment fee of up to 1/2 of 1% on the daily unused portion of the facility. In order to partially offset our exposure to changing interest rates we have entered into interest rate hedging contracts.

Our borrowings under the credit facility are collateralized by pledges of all of our interests in Affiliates (including all interests which are

directly held by us, as well as all interests which are indirectly held by us through wholly-owned subsidiaries), which interests represent substantially all of our assets. Our credit facility contains a

number of negative covenants, including those which generally prevent us and our Affiliates from: (i) incurring additional indebtedness (other than subordinated indebtedness) (ii) creating any liens or encumbrances on material assets (with certain enumerated exceptions), (iii) selling assets outside the ordinary course of business or making certain fundamental changes with respect to our businesses, including a restriction on our ability to transfer interests in any majority owned Affiliate if, as a result of such transfer, we would own less than 51% of such firm, and (iv) declaring or paying dividends on our Common Stock.

In order to provide the funds necessary for us to continue to acquire interests in investment management firms, including our existing Affiliates upon the management owners' sales of their retained equity to us, it will be necessary for us to incur, from time to time, additional long-term bank debt and/or issue equity or debt securities, depending on market and other conditions. There can be no assurance that such additional financing will be available or become available on terms acceptable to us.

#### YEAR 2000

The "Year 2000" poses a concern to our business as a result of the fact that computer applications have historically used the last two digits, rather than all four digits, to store year data. If left unmodified, these applications would misinterpret the Year 2000 for the Year 1900 and would in many cases be unable to function properly in the Year 2000 and beyond.

We have based our evaluation of our ability to prepare for the Year 2000 upon a number of assumptions regarding future events, including third party modification plans and the availability of needed resources. We cannot guarantee that these estimates will be achieved, and actual results may differ materially from our estimates. Specific factors which might cause such material differences with respect to the Year 2000 include, but are not limited to, the failure of our Affiliates to achieve represented or stated levels of Year 2000 Compliance, the availability and cost of personnel trained in this area and the ability to locate and correct all relevant computer codes and similar uncertainties.

#### AMG'S HOLDING COMPANY READINESS

In anticipation of this problem, we have identified all of the significant computers, software applications and related equipment used at the holding company that need to be modified, upgraded or replaced to minimize the possibility of a material disruption to our business based on the advent of the Year 2000. We anticipate completing our Year 2000 preparations at the holding company by the end of the third quarter of 1999. We estimate our total cost will be \$500,000 for the four year period ending on December 31, 1999. We cannot be certain that we will not encounter unforeseen delays or costs in completing our preparations.

#### AMG'S AFFILIATES' READINESS

We have also established a time line with each of our Affiliates to complete their Year 2000 preparations and have received estimates from each of them of the costs required to complete their preparations. As part of our general preparedness program, each of our Affiliates has assigned responsibility for preparing for the Year 2000 to a member of its senior management in order to ensure that both proprietary and third party vendor systems will be ready for the Year 2000. Each of our Affiliates has completed its assessment and plans are in place for the renovation or replacement of all non-compatible systems. We anticipate that most of the Affiliates will complete the

renovation or replacement of all non-compatible systems and the subsequent testing of all systems by the end of the third quarter of 1999 with the remainder completing those activities during the fourth quarter of 1999. Most of our Affiliates pay for the costs of their Year 2000 preparations out of their Operating Allocation, which is the portion of their revenues that is allocated to pay their operating expenses. As a result, these costs will only reduce an Affiliate's distributions to us based on our ownership interest in the Affiliate if the Affiliate's operating expenses exceed its Operating Allocation and the portion of revenues allocated to the management owners.

#### OUTSIDE SERVICE PROVIDERS

Outside service providers perform several processes which are critical to our Affiliates' business operations, including transfer agency and custody functions. Our Affiliates have surveyed these parties and are monitoring their progress. However, our Affiliates have limited control, if any, over the actions of these outside parties and in some instances have no alternative vendors. If outside service providers fail to resolve their Year 2000 issues, we anticipate that our Affiliates' operations will experience material disruptions caused by the inability to process trades and access client and investment research data files and, accordingly, our and our Affiliates' businesses would be adversely affected.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use interest-rate swaps to manage market exposures associated with our variable rate debt by creating offsetting market exposures. These instruments are not held for trading purposes. In the normal course of operations, we also face risks that are either nonfinancial or nonquantifiable. Such risks principally include country risk, credit risk, and legal risk, and are not represented in the analysis that follows.

This analysis presents the hypothetical loss in earnings of the derivative instruments we held at June 30, 1999 that are sensitive to changes in interest rates. Interest rate swaps allow us to achieve a level of variable-rate and fixed-rate debt that is acceptable to us, and to reduce interest rate exposure. In each of our interest rate swaps, we have agreed with another party to exchange the difference between fixed-rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. Under each of our interest rate swaps, interest rates on the notional amounts are capped at rates ranging between 6.67% and 6.78% upon quarterly reset dates. In addition, if LIBOR falls below 5% at a quarterly reset date, we are required to make a payment to our counterparty equal to the difference between the interest rate on our floating rate LIBOR debt on an annualized rate of between 6.67% and 6.78%, multiplied by the notional principal amount. At June 30, 1999, a total of \$185 million was subject to interest rate swaps (the "Original Swaps"), and our exposure was to changes in three-month LIBOR rates. Beginning in January 1999, we also became a party to additional contracts with a \$75 million notional amount (the "Subsequent Swaps"). These contracts are designed to limit interest rate increases to 5.99% on this notional amount if three-month LIBOR rates fall below 5%.

The hypothetical loss in earnings on all derivative instruments that would have resulted from a hypothetical change of 10 percent in three-month LIBOR rates, sustained for three months, is estimated to be \$291,000. Because our net-earnings exposure under the combined debt and interest-rate swap was to three-month LIBOR rates, the hypothetical loss was calculated as follows: multiplying the notional amount of the swap by the effect of a 10% reduction in LIBOR under the Original Swaps, partially offset by the Subsequent Swaps and interest savings on the underlying debt.

#### PART II - OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company and its Affiliates may be parties to various claims, suits and complaints. Currently, there are no such claims, suits or complaints that, in the opinion of management, would have a material adverse effect on the Company's financial position, liquidity or results of operations.

##### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS



AFFILIATED MANAGERS GROUP, INC.

1997 STOCK OPTION AND INCENTIVE PLAN

AS AMENDED AND RESTATED

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Affiliated Managers Group, Inc. 1997 Stock Option and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees, Independent Directors and other key persons (including consultants) of Affiliated Managers Group, Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"ACT" means the Securities Exchange Act of 1934, as amended.

"ADMINISTRATOR" is defined in Section 2(a).

"AWARD" or "AWARDS," except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Deferred Stock Awards, Restricted Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Dividend Equivalent Rights.

"BOARD" means the Board of Directors of the Company.

"CHANGE OF CONTROL" is defined in Section 17.

"CODE" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"COMMITTEE" means the Committee of the Board referred to in Section 2.

"COVERED EMPLOYEE" means an employee who is a "Covered Employee" within the meaning of Section 162(m) of the Code.

"DEFERRED STOCK AWARD" means Awards granted pursuant to Section 8.

"DIVIDEND EQUIVALENT RIGHT" means Awards granted pursuant to Section

"EFFECTIVE DATE" means the date on which the Plan is approved by stockholders as set forth in Section 19.

"FAIR MARKET VALUE" of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that (i) if the Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), the Fair Market Value on any given date shall not be less than the average of the highest bid and lowest asked prices of the Stock reported for such date or, if no bid and asked prices were reported for such date, for the last day preceding such date for which such prices were reported, or (ii) if the Stock is admitted to trading on a national securities exchange or the NASDAQ National Market System, the Fair Market Value on any date shall not be less than the closing price reported for the Stock on such exchange or system for such date or, if no sales were reported for such date, for the last date preceding the date for such a sale was reported. Notwithstanding the foregoing, the Fair Market Value on the first day of the Company's initial public offering of Stock shall be the initial public price as set forth in the final prospectus for the Company's initial public offering.

"INCENTIVE STOCK OPTION" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"INDEPENDENT DIRECTOR" means a member of the Board who is not also an employee of the Company or any Subsidiary.

"NON-QUALIFIED STOCK OPTION" means any Stock Option that is not an Incentive Stock Option.

"OPTION" or "STOCK OPTION" means any option to purchase shares of Stock granted pursuant to Section 5.

"PERFORMANCE CYCLE" means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more performance criteria will be measured for the purpose of determining a participant's right to and the payment of a Performance Share Award, Restricted Stock Award or Deferred Stock Award.

"PERFORMANCE SHARE AWARD" means Awards granted pursuant to Section 10.

"RESTRICTED STOCK AWARD" means Awards granted pursuant to Section 7.

"STOCK" means the Common Stock, par value \$.01 per share, of the Company, subject to adjustments pursuant to Section 3.

"STOCK APPRECIATION RIGHT" means any Award granted pursuant to Section 6.

"SUBSIDIARY" means any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities beginning with the Company if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50 percent or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

"UNRESTRICTED STOCK AWARD" means any Award granted pursuant to Section 9.

SECTION 2. ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS

(a) COMMITTEE. The Plan shall be administered by either the Board or a committee of not less than two Independent Directors (in either case, the "Administrator"). Each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder and a "non-employee director" within the meaning of Rule 16b-3(b)(3)(i) promulgated under the Act, or any successor definition under said rule.

(b) POWERS OF ADMINISTRATOR. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Deferred Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more participants;

(iii) to determine the number of shares of Stock to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(a)(ii), to extend at any time the period in which Stock Options may be exercised;

(vii) to determine at any time whether, to what extent, and under what circumstances distribution or the receipt of Stock and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the participant and whether and to what extent the Company shall pay or credit amounts constituting interest (at rates determined by the Administrator) or dividends or deemed dividends on such deferrals; and

(viii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan participants.

(c) DELEGATION OF AUTHORITY TO GRANT AWARDS. The Administrator, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Administrator's authority and duties with respect to the granting of Awards at Fair Market Value, to individuals who are not subject to the reporting and other provisions of Section 16 of the Act or Covered Employees. Any such delegation by the Administrator shall include a limitation as to the amount of Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price of any Option, the conversion ratio or price of other Awards and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

### SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) STOCK ISSUABLE. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 3,250,000. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. Subject to such overall limitation, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 700,000 shares of Stock may be granted to any one individual participant during any one calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company and held in its treasury.

(b) CHANGES IN STOCK. If, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, (ii) the number of Stock Options or Stock Appreciation Rights that can be granted to any one individual participant, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, and (iv) the price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

The Administrator may also adjust the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration material changes in accounting practices or principles, extraordinary dividends, acquisitions or dispositions of stock or property or any other event if it is determined by the Administrator that such adjustment is appropriate to avoid distortion in the operation of the Plan, provided that no such adjustment shall be made in the case of an Incentive Stock Option, without the consent of the participant, if it would constitute a modification, extension or renewal of the Option within the meaning of Section 424(h) of the Code.

(c) MERGERS. In contemplation of and subject to the consummation of a consolidation or merger or sale of all or substantially all of the assets of the Company in which outstanding shares of Stock are exchanged for securities, cash or other property of an unrelated corporation or business entity or in the event of a liquidation of the Company (in each case, a "Transaction"), the Board, or the board of directors of any corporation assuming the obligations of the Company, may, in its discretion, take any one or more of the following actions, as to outstanding Awards: (i) provide that such Awards shall be assumed or equivalent awards shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), and/or (ii) upon written notice to the participants, provide that all Awards will terminate immediately prior to the consummation of the Transaction. In the event that, pursuant to clause (ii) above, Awards will terminate immediately prior to the consummation of the Transaction, all vested Awards, other than Stock Options and Stock Appreciation Rights, shall be fully settled in cash or in kind at such appropriate consideration as determined by the Administrator in its sole discretion after taking into account the consideration payable per share of Stock pursuant to the business combination (the "Merger Price") and all vested Stock Options and vested Stock Appreciation Rights shall be fully settled, in cash or in kind, in an amount equal to the difference between (A) the Merger Price times the number of shares of

Stock subject to such outstanding Stock Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Merger Price) and (B) the aggregate exercise price of all such outstanding Stock Options and Stock Appreciation Rights; provided, however, that each participant shall be permitted, within a specified period determined by the Administrator prior to the consummation of the Transaction, to exercise all outstanding Stock Options and Stock Appreciation Rights, including those that are not then exercisable, subject to the consummation of the Transaction.

(d) SUBSTITUTE AWARDS. The Administrator may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Administrator may direct that the substitute awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances.

#### SECTION 4. ELIGIBILITY

Participants in the Plan will be such full or part-time officers and other employees, Independent Directors and key persons of the Company and its Subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

#### SECTION 5. STOCK OPTIONS

Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

No Incentive Stock Option shall be granted under the Plan after April 14, 2009.

(a) GRANT OF STOCK OPTIONS. The Administrator in its discretion may grant Stock Options to employees, Independent Directors and key persons of the Company or any Subsidiary. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable.

(i) EXERCISE PRICE. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by

the Administrator at the time of grant but, except as provided in the last sentence of this Section 5(a)(i), shall not be less than 100 percent of the Fair Market Value on the date of grant in the case of Incentive Stock Options, or 85 percent of the Fair Market Value on the date of grant, in the case of Non-Qualified Stock Options. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the participant's election, subject to such terms and conditions as the Administrator may establish. Stock Options granted in lieu of cash compensation may have an exercise price less than 85 percent of the Fair Market Value on the date of grant.

(ii) OPTION TERM. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five years from the date of grant.

(iii) EXERCISABILITY; RIGHTS OF A STOCKHOLDER. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date; provided, however, that Stock Options granted in lieu of compensation shall be exercisable in full as of the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) METHOD OF EXERCISE. Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods to the extent provided in the Option Award agreement:

(A) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(B) Through the delivery (or attestation to the ownership) of shares of Stock that are not then subject to restrictions under any Company plan and that have been purchased by the optionee on the open market or have been beneficially owned by the optionee for at least six months, if permitted by the Administrator in its discretion. Such surrendered shares shall be valued at Fair Market Value on the exercise date;

(C) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Administrator shall prescribe as a condition of such payment procedure; or

(D) By the optionee delivering to the Company a promissory note if the Board, upon the advice of counsel, has expressly authorized the loan of funds to the optionee for the purpose of enabling or assisting the optionee to effect the exercise of his Stock Option; provided that at least so much of the exercise price as represents the par value of the Stock shall be paid other than with a promissory note.

Payment instruments will be received subject to collection. The delivery of certificates representing the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or applicable provisions of laws. In the event an optionee chooses to pay the purchase price by delivery of previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of shares attested to.

(v) ANNUAL LIMIT ON INCENTIVE STOCK OPTIONS. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

(b) RELOAD OPTIONS. At the discretion of the Administrator, Options granted under the Plan may include a "reload" feature pursuant to which an optionee exercising an option by the delivery of a number of shares of Stock in accordance with Section 5(a)(iv)(B) hereof would automatically be granted an additional Option (with an exercise price equal to the Fair Market Value of the Stock on the date the additional Option is granted and with such other terms as the Administrator may provide) to purchase that number of shares of Stock equal to the number delivered to exercise the original Option with an Option term equal to the remainder of the original Option term unless the Administrator otherwise determines in the Award agreement for the original Option grant.

(c) NON-TRANSFERABILITY OF OPTIONS. No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee. Notwithstanding the foregoing, the Administrator, in its sole discretion, may provide in the Award agreement regarding a given Option that the optionee may transfer, without consideration for the transfer, his Non-Qualified Stock Options to members of his immediate family, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Option.

(d) TERMINATION. Except as may otherwise be provided by the Administrator either in the Award agreement, or subject to Section 15 below, in writing after the Award agreement is issued, an optionee's rights in all Stock Options shall automatically terminate upon the participant's termination of employment (or cessation of business relationship) with the Company and its Subsidiaries for any reason.

#### SECTION 6. STOCK APPRECIATION RIGHTS.

(a) NATURE OF STOCK APPRECIATION RIGHTS. A Stock Appreciation Right is an Award entitling the recipient to receive an amount in cash or shares of Stock or a combination thereof having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right, which price shall not be less than 85 percent of the Fair Market Value of the Stock on the date of grant (or more than the option exercise price per share, if the Stock Appreciation Right was granted in tandem with a Stock Option) multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised, with the Administrator having the right to determine the form of payment.

(b) GRANT AND EXERCISE OF STOCK APPRECIATION RIGHTS. Stock Appreciation Rights may be granted by the Administrator in tandem with, or independently of, any Stock Option granted pursuant to Section 5 of the Plan. In the case of a Stock Appreciation Right granted in tandem with a Non-Qualified Stock Option, such Stock Appreciation Right may be granted either at or after the time of the grant of such Option. In the case of a Stock Appreciation Right granted in tandem with an Incentive Stock Option, such Stock Appreciation Right may be granted only at the time of the grant of the Option.

A Stock Appreciation Right or applicable portion thereof granted in tandem with a Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Option.

(c) TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator, subject to the following:

(i) Stock Appreciation Rights granted in tandem with Options shall be exercisable at such time or times and to the extent that the related Stock Options shall be exercisable.

(ii) Upon exercise of a Stock Appreciation Right, the applicable portion of any related Option shall be surrendered.

(iii) All Stock Appreciation Rights shall be exercisable during the participant's lifetime only by the participant or the participant's legal representative.

(d) TERMINATION. Except as may otherwise be provided by the Administrator either in the Award agreement, or subject to Section 15 below, in writing after the Award agreement is issued, an optionee's rights in all Stock Appreciation Rights shall automatically terminate upon the participant's termination of employment (or cessation of business relationship) with the Company and its Subsidiaries for any reason.

#### SECTION 7. RESTRICTED STOCK AWARDS

(a) NATURE OF RESTRICTED STOCK AWARDS. A Restricted Stock Award is an Award entitling the recipient to acquire, at par value or such other higher purchase price determined by the Administrator, shares of Stock subject to such restrictions and conditions as the Administrator may determine at the time of grant ("Restricted Stock"). Conditions may be based on continuing employment (or other business relationship) and/or achievement of pre-established performance goals and objectives, including, but not limited to, increase in cash net income or increase in stock price. The grant of a Restricted Stock Award is contingent on the participant executing the Restricted Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and participants.

(b) RIGHTS AS A STOCKHOLDER. Upon execution of a written instrument setting forth the Restricted Stock Award and payment of any applicable purchase price, a participant shall have the rights of a stockholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the written instrument evidencing the Restricted Stock Award. Unless the Administrator shall otherwise determine, certificates evidencing the Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 7(d) below, and the participant shall be required, as a condition of the grant, to deliver to the Company a stock power endorsed in blank.

(c) RESTRICTIONS. Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award agreement. If a participant's employment (or other business relationship) with the Company and its Subsidiaries terminates for any reason, the Company shall have the right to repurchase Restricted Stock that has not vested at the time of termination at its original purchase price, from the participant or the participant's legal representative.

(d) VESTING OF RESTRICTED STOCK. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a participant's rights in any shares of Restricted Stock that have not vested shall automatically terminate upon the participant's termination of employment (or other business relationship) with the Company and its Subsidiaries and such shares shall be subject to the Company's right of repurchase as provided in Section 7(c) above.

(e) WAIVER, DEFERRAL AND REINVESTMENT OF DIVIDENDS. The Restricted Stock Award agreement may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

#### SECTION 8. DEFERRED STOCK AWARDS

(a) NATURE OF DEFERRED STOCK AWARDS. A Deferred Stock Award is an Award of phantom stock units to a participant, subject to restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other business relationship) and/or achievement of pre-established performance goals and objectives, including, but not limited to, increase in cash net income and increase in stock price. The grant of a Deferred Stock Award is contingent on the participant executing the Deferred Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and participants. At the end of the deferral period, the Deferred Stock Award, to the extent vested, shall be paid to the participant in the form of shares of Stock.

(b) ELECTION TO RECEIVE DEFERRED STOCK AWARDS IN LIEU OF COMPENSATION. The Administrator may, in its sole discretion, permit a participant to elect to receive a portion of the cash compensation or Restricted Stock Award otherwise due to such participant in the form of a Deferred Stock Award. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with rules and procedures established by the Administrator. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate.

(c) RIGHTS AS A STOCKHOLDER. During the deferral period, a participant shall have no rights as a stockholder; provided, however, that the participant may be credited with Dividend Equivalent Rights with respect to the phantom stock units underlying his Deferred Stock Award, subject to such terms and conditions as the Administrator may determine.

(d) RESTRICTIONS. A Deferred Stock Award may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of during the deferral period.

(e) TERMINATION. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a participant's right in all Deferred Stock Awards that have not vested shall automatically terminate upon the participant's termination of employment (or cessation of business relationship) with the Company and its Subsidiaries for any reason.

#### SECTION 9. UNRESTRICTED STOCK AWARDS

GRANT OR SALE OF UNRESTRICTED STOCK. The Administrator may, in its sole discretion, grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award to any participant pursuant to which such participant may receive shares of Stock free of any restrictions ("Unrestricted Stock") under the Plan. Unrestricted Stock Awards may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration, or in lieu of cash compensation due to such participant.

#### SECTION 10. PERFORMANCE SHARE AWARDS

(a) NATURE OF PERFORMANCE SHARE AWARDS. A Performance Share Award is an Award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals, including, but not limited to, increase in cash net income or increase in stock price. The Administrator may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. The Administrator in its sole discretion shall determine whether and to whom Performance Share Awards shall be made, the performance goals, the periods during which performance is to be measured, and all other limitations and conditions.

(b) RIGHTS AS A STOCKHOLDER. A participant receiving a Performance Share Award shall have the rights of a stockholder only as to shares actually received by the participant under the Plan and not with respect to shares subject to the Award but not actually received by the participant. A participant shall be entitled to receive a stock certificate evidencing the acquisition of shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the Performance Share Award agreement (or in a performance plan adopted by the Administrator).

(c) TERMINATION. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a participant's rights in all Performance Share Awards shall automatically terminate upon the participant's termination of employment (or cessation of business relationship) with the Company and its Subsidiaries for any reason.

(d) ACCELERATION, WAIVER, ETC. At any time prior to the participant's termination of employment (or other business relationship) by the Company and its Subsidiaries, the Administrator may in its sole discretion accelerate, waive or, subject to Section 15, amend any or all of the goals, restrictions or conditions applicable to a Performance Share Award.

#### SECTION 11. DIVIDEND EQUIVALENT RIGHTS

(a) DIVIDEND EQUIVALENT RIGHTS. A Dividend Equivalent Right is an Award entitling the recipient to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the recipient. A Dividend Equivalent Right may be granted hereunder to any participant as a component of another Award or as a freestanding award. The terms and conditions of Dividend Equivalent Rights shall be specified in the grant. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other award. A Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other award.

(b) INTEREST EQUIVALENTS. Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide in the grant for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

(c) TERMINATION. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a participant's rights in all Dividend Equivalent Rights or interest equivalents shall automatically terminate upon the participant's termination of employment (or cessation of business relationship) with the Company and its Subsidiaries for any reason.

#### SECTION 12. PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES

Notwithstanding anything to the contrary contained herein, if any Restricted Stock Award, Deferred Stock Award or Performance Share Award granted to a Covered Employee is intended to qualify as "Performance-based Compensation" under Section 162(m) of the Code and the regulations promulgated thereunder (a "Performance-based Award"), such Award shall comply with the provisions set forth below:

(a) PERFORMANCE CRITERIA. The performance criteria used in performance goals governing Performance-based Awards granted to Covered Employees may include any or all of the following: (i) the Company's earnings before interest expense, income taxes, depreciation, amortization and extraordinary items, (ii) the Company's earnings after interest expense and income taxes but before depreciation and amortization and extraordinary items; (iii) the Company's return on equity, assets, capital or investment; (iv) pre-tax or after-tax profit levels of the Company or any Subsidiary, a division, an operating unit or a business segment of the Company, or any combination of the foregoing; (v) assets under management; (vi) total shareholder return; (vii) changes in the market price of the Stock; or (viii) earnings per share.

(b) GRANT OF PERFORMANCE-BASED AWARDS. With respect to each Performance-based Award granted to a Covered Employee, the Administrator shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the performance criteria for such grant, and the achievement targets with respect to each performance criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The performance criteria established by the Administrator may be (but need not be) different for each Performance Cycle and different goals may be applicable to Performance-based Awards to different Covered Employees.

(c) PAYMENT OF PERFORMANCE-BASED AWARDS. Following the completion of a Performance Cycle, the Administrator shall meet to review and certify in writing whether, and to what extent, the performance criteria for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-based Awards earned for the Performance Cycle. The Administrator shall then determine the actual size of each Covered Employee's Performance-based Award, and, in doing so, may reduce or eliminate the amount of the Performance-based Award for a Covered Employee if, in its sole judgment, such reduction or elimination is appropriate.

(d) MAXIMUM AWARD PAYABLE. The maximum Performance-based Award payable to any one Covered Employee under the Plan for a Performance Cycle is 300,000 Shares (subject to adjustment as provided in Section 3(b) hereof).

SECTION 13. TAX WITHHOLDING

(a) PAYMENT BY PARTICIPANT. Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

The Company's obligation to deliver stock certificates to any participant is subject to and conditioned on tax obligations being satisfied by the participant.

(b) PAYMENT IN STOCK. Subject to approval by the Administrator, a participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company shares of Stock owned by the participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

#### SECTION 14. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

#### SECTION 15. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. If and to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code or to ensure that compensation earned under Stock Options and Stock Appreciation Rights qualifies as performance-based compensation under Section 162(m) of the Code, if and to the extent intended to so qualify, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Except as provided in Section 3(b) or 3(c), any action by the Board or the Administrator to reduce the exercise price of any outstanding Stock Option or Stock Appreciation Right shall be subject to approval by the Company's stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 15 shall limit the Board's authority to take any action permitted pursuant to Section 3(c).

## SECTION 16. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

## SECTION 17. CHANGE OF CONTROL PROVISIONS

Upon the occurrence of a Change of Control as defined in this Section 17:

(a) Except as otherwise provided in the applicable Award agreement, each outstanding Stock Option and Stock Appreciation Right shall automatically become fully exercisable.

(b) Each outstanding Restricted Stock Award and Performance Share Award shall be subject to such terms, if any, with respect to a Change of Control as have been provided by the Administrator in the Award agreement, or subject to Section 15 above, in writing after the Award agreement is issued.

(c) "CHANGE OF CONTROL" shall mean the occurrence of any one of the following events:

(i) any "PERSON," as such term is used in Sections 13(d) and 14(d) of the Act (other than the Company, any of its Subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its Subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 25 percent or more of the combined voting power of the Company's then outstanding securities having the right to vote in an election of the Company's Board of Directors ("Voting Securities") (in such case other than as a result of an acquisition of securities directly from the Company); or

(ii) the stockholders of the Company shall approve (A) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate 50 percent or more of the voting shares

of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of shares of Voting Securities beneficially owned by any person to 25 percent or more of the combined voting power of all then outstanding Voting Securities; PROVIDED, HOWEVER, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company), then a "CHANGE OF CONTROL" shall be deemed to have occurred for purposes of the foregoing clause (i).

#### SECTION 18. GENERAL PROVISIONS

(a) NO DISTRIBUTION; COMPLIANCE WITH LEGAL REQUIREMENTS. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange or similar requirements have been satisfied. The Administrator may require the placing of such stop-orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) DELIVERY OF STOCK CERTIFICATES. Stock certificates to participants under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) OTHER COMPENSATION ARRANGEMENTS; NO EMPLOYMENT RIGHTS. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(d) TRADING POLICY RESTRICTIONS. Option exercises and other Awards under the Plan shall be subject to such Company's insider-trading-policy-related restrictions, terms and

conditions as may be established by the Administrator, or in accordance with policies set by the Administrator, from time to time.

(e) LOANS. The Board may, in its sole discretion, authorize the grant of loans to selected key employees to be used solely for the purchase of shares of Stock or payment of taxes in connection with Awards under the Plan. The terms of such loans shall be determined at the sole discretion of the Board. Such loans shall be secured by the shares of Stock, and may be made with or without recourse against the employee.

#### SECTION 19. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon approval by the holders of a majority of the votes cast at a meeting of stockholders at which a quorum is present. Subject to such approval by the stockholders and to the requirement that no Stock may be issued hereunder prior to such approval, Stock Options and other Awards may be granted hereunder on and after adoption of this amended and restated Plan by the Board.

#### SECTION 20. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS	
DEC-31-1999	
JAN-01-1999	
JUN-30-1999	
	32,149
	0
42,476	0
	0
80,414	12,068
	0
690,394	
42,967	174,000
	0
	406,230
	25,987
690,394	0
146,704	0
	90,619
	22,574
	0
	6,256
	28,913
	11,854
17,059	0
	0
	0
	17,059
	0.81
	0.77

MINORITY INTEREST