

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, 2004

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

(State or other jurisdiction
of incorporation or organization)

04-3218510

(IRS Employer Identification Number)

600 Hale Street, Prides Crossing, Massachusetts 01965

(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

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

There were 28,992,832 shares of the Registrant's common stock outstanding as of August 2, 2004.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

(unaudited)

	December 31, 2003	June 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 253,334	\$ 344,672
Investment advisory fees receivable	65,288	79,895
Prepaid expenses and other current assets	20,861	18,422
Total current assets	339,483	442,989
Fixed assets, net	36,886	39,505
Acquired client relationships, net	364,429	378,843
Goodwill	751,607	812,146
Other assets	26,800	28,580
Total assets	\$ 1,519,205	\$ 1,702,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 89,707	\$ 106,579
Notes payable to related party	11,744	7,623
Total current liabilities	101,451	114,202
Senior convertible debt	423,340	423,649
Mandatory convertible securities	230,000	530,000
Deferred income taxes	92,707	107,775
Other long-term liabilities	16,144	31,617
Total liabilities	863,642	1,207,243
Commitments and contingencies	—	—
Minority interest	40,794	52,570
Stockholders' equity:		
Common stock	235	353
Additional paid-in capital	408,449	377,767
Accumulated other comprehensive income	944	1,763
Retained earnings	306,972	344,062
Less: treasury stock, at cost	716,600 (101,831)	723,945 (281,695)
Total stockholders' equity	614,769	442,250
Total liabilities and stockholders' equity	\$ 1,519,205	\$ 1,702,063

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Revenue	\$ 116,701	\$ 158,562	\$ 226,948	\$ 310,196
Operating expenses:				
Compensation and related expenses	40,213	57,591	79,524	114,882
Selling, general and administrative	20,878	25,325	40,396	48,646
Amortization of intangible assets	4,033	4,163	8,047	8,264
Depreciation and other amortization	1,610	1,620	3,124	3,159
Other operating expenses	3,810	3,451	7,778	7,173
	<u>70,544</u>	<u>92,150</u>	<u>138,869</u>	<u>182,124</u>
Operating income	46,157	66,412	88,079	128,072
Non-operating (income) and expenses:				
Investment and other income	(1,484)	(1,698)	(2,959)	(3,582)
Interest expense	5,981	8,810	11,422	16,125
	<u>4,497</u>	<u>7,112</u>	<u>8,463</u>	<u>12,543</u>
Income before minority interest and taxes	41,660	59,300	79,616	115,529
Minority interest	(18,621)	(27,766)	(34,915)	(53,198)
Income before income taxes	23,039	31,534	44,701	62,331
Income taxes—current	1,690	5,624	3,742	10,173
Income taxes—intangible-related deferred	5,949	6,160	11,899	12,243
Income taxes—other deferred	1,577	830	2,240	2,825
Net Income	<u>\$ 13,823</u>	<u>\$ 18,920</u>	<u>\$ 26,820</u>	<u>\$ 37,090</u>
Earnings per share—basic ⁽¹⁾	\$ 0.44	\$ 0.65	\$ 0.84	\$ 1.25
Earnings per share—diluted ⁽¹⁾	\$ 0.43	\$ 0.62	\$ 0.83	\$ 1.19
Average shares outstanding—basic ⁽¹⁾	31,566,975	28,992,832	31,826,160	29,651,623
Average shares outstanding—diluted ⁽¹⁾	32,228,521	30,314,383	32,403,733	31,154,578
Supplemental disclosure of total comprehensive income:				
Net Income	\$ 13,823	\$ 18,920	\$ 26,820	\$ 37,090
Other comprehensive income	377	569	566	819
Total comprehensive income	<u>\$ 14,200</u>	<u>\$ 19,489</u>	<u>\$ 27,386</u>	<u>\$ 37,909</u>

(1) Earnings per share and average shares outstanding reflect a three-for-two stock split that occurred in March 2004.

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Cash flow from operating activities:				
Net Income	\$ 13,823	\$ 18,920	\$ 26,820	\$ 37,090
Adjustments to reconcile Net Income to net cash flow from operating activities:				
Amortization of intangible assets	4,033	4,163	8,047	8,264
Amortization of debt issuance costs	853	928	1,456	1,832
Depreciation and amortization of fixed assets	1,610	1,620	3,124	3,159
Deferred income tax provision	7,526	6,990	14,139	15,068
Accretion of interest	155	327	405	481
Tax benefit from exercise of stock options	914	—	914	5,509
Other adjustments	(24)	—	(555)	—
Changes in assets and liabilities:				
Increase in investment advisory fees receivable	(6,197)	(5,775)	(592)	(14,607)
Decrease (increase) in other current assets	1,088	5,316	(705)	6,865
Decrease (increase) in non-current other receivables	(934)	2,817	(700)	3,528
Increase (decrease) in accounts payable, accrued expenses and other liabilities	10,534	22,896	(14,766)	2,812
Increase (decrease) in minority interest	2,390	7,394	(3,901)	7,401
Cash flow from operating activities	35,771	65,596	33,686	77,402
Cash flow used in investing activities:				
Cost of investments, net of cash acquired	(2,999)	(75,952)	(6,118)	(80,066)
Purchase of fixed assets	(1,350)	(2,224)	(2,859)	(3,519)
Investment in marketable securities	(1,852)	(6)	(1,852)	(2,592)
Decrease (increase) in other assets	3	49	(12)	(57)
Cash flow used in investing activities	(6,198)	(78,133)	(10,841)	(86,234)
Cash flow from (used in) financing activities:				
Borrowings of senior bank debt	—	—	85,000	—
Repayments of senior bank debt	—	—	(85,000)	—
Issuances of convertible securities	—	—	300,000	300,000
Repurchases of convertible securities	(4,544)	—	(105,841)	—
Issuances of equity securities	4,773	—	4,773	11,414
Repurchases of common stock	—	—	(33,688)	(194,420)
Issuance costs	(164)	(129)	(7,461)	(9,844)
Repayments of notes payable	(566)	(2,457)	(8,068)	(7,041)
Cash flow from (used in) financing activities	(501)	(2,586)	149,715	100,109
Effect of foreign exchange rate changes on cash flow	55	61	244	61
Net increase (decrease) in cash and cash equivalents	29,127	(15,062)	172,804	91,338
Cash and cash equivalents at beginning of period	171,385	359,734	27,708	253,334
Cash and cash equivalents at end of period	\$ 200,512	\$ 344,672	\$ 200,512	\$ 344,672
Supplemental disclosure of non-cash financing activities:				
Notes issued for Affiliate equity purchases	\$ 938	\$ —	\$ 938	\$ —
Stock issued in repayment of note	465	—	465	—

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTES TO 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. All intercompany balances and transactions have been eliminated. All dollar amounts in these notes (except information that is presented on a per share, per note or per contract basis) are stated in thousands, unless otherwise indicated. 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, 2003 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. Stock Split

In January 2004, the Company's Board of Directors authorized a three-for-two stock split, and the additional shares of common stock were distributed on March 29, 2004. Corresponding with this split, the conversion and settlement rates of outstanding convertible securities and the number of shares of common stock subject to outstanding options were appropriately adjusted. As applicable, the information provided in this Quarterly Report on Form 10-Q reflects the stock split.

3. Long-Term Senior Debt

The components of long-term senior debt are as follows:

	December 31, 2003	June 30, 2004
Senior revolving credit facility	\$ —	\$ —
Zero coupon senior convertible notes	123,340	123,649
Floating rate senior convertible securities	300,000	300,000
Total	\$ 423,340	\$ 423,649

Senior Revolving Credit Facility

The Company has a senior revolving credit facility (the "Facility") with a syndicate of major commercial banks. The Facility, which is scheduled to mature in August 2005, currently provides that the Company may borrow up to \$250,000 at rates of interest (based either on the Eurodollar rate or the Prime rate as in effect from time to time) that vary depending on the Company's credit ratings. Subject to the agreement of the lenders (or prospective lenders) to increase their commitments, the Company has the option to increase the Facility to \$350,000. The Facility contains financial covenants with respect to net worth, leverage and interest coverage. The Facility also contains customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends and

fundamental corporate changes. Any borrowings under the Facility would be collateralized by pledges of all capital stock or other equity interests owned by the Company.

Zero Coupon Senior Convertible Notes

In May 2001, the Company completed a private placement of zero coupon senior convertible notes. In this private placement, the Company sold an aggregate of \$251,000 principal amount at maturity of zero coupon senior convertible notes due 2021, with each note issued at 90.50% of such principal amount and accreting at a rate of 0.50% per year. Each security is convertible into 17.429 shares of the Company's common stock upon the occurrence of certain events, including the following: (i) if the closing price of a share of the Company's common stock is more than a specified price over certain periods (initially \$62.36 and increasing incrementally at the end of each calendar quarter to \$63.08 on April 1, 2021); (ii) if the credit rating assigned by Standard & Poor's to the securities is below BB-; or (iii) if the Company calls the securities for redemption. The holders may require the Company to repurchase the securities at their accreted value on May 7 of 2006, 2011 and 2016. (Holders also had the option to require the Company to repurchase the securities on May 7, 2004, but no holders exercised this option.) If the holders exercise this option in the future, the Company may elect to repurchase the securities with cash, shares of its common stock or some combination thereof. The Company has the option to redeem the securities for cash on or after May 7, 2006 at their accreted value. In the first six months of 2003, the Company repurchased an aggregate \$116,500 principal amount at maturity of zero coupon senior convertible notes in privately negotiated transactions.

Floating Rate Senior Convertible Securities

In February 2003, the Company completed a private placement of \$300,000 of floating rate senior convertible securities due 2033 ("convertible securities"). The convertible securities bear interest at a rate equal to 3-month LIBOR minus 0.50%, payable in cash quarterly. Each security is convertible into shares of the Company's common stock upon the occurrence of certain events, including the following: (i) if the closing price of a share of the Company's common stock exceeds \$65.00 over certain periods; (ii) if the credit rating assigned by Standard & Poor's is below BB-; or (iii) if the Company calls the securities for redemption. Upon conversion, holders of the securities will receive 18.462 shares of the Company's common stock for each convertible security. In addition, if the market price of the Company's common stock exceeds \$54.17 per share at the time of conversion, holders will receive additional shares of common stock based on the stock price at that time. Based on the trading price of the Company's common stock on June 30, 2004, each security would have a settlement rate of 18.462 shares. The holders of the convertible securities may require the Company to repurchase such securities on February 25 of 2008, 2013, 2018, 2023 and 2028, at their principal amount. The Company may choose to pay the purchase price for such repurchases with cash, shares of its common stock or some combination thereof. The Company may redeem the convertible securities for cash at any time on or after February 25, 2008, at their principal amount.

4. Mandatory Convertible Securities

The components of the Company's mandatory convertible securities are as follows:

	December 31, 2003	June 30, 2004
2001 mandatory convertible securities	\$ 230,000	\$ 230,000
2004 mandatory convertible securities	—	300,000
Total	\$ 230,000	\$ 530,000

2001 Mandatory Convertible Securities

In December 2001, the Company completed a public offering of mandatory convertible securities ("2001 PRIDES"). A sale of an over-allotment of the securities was completed in January 2002, increasing the aggregate amount outstanding to \$230,000. Each unit of the 2001 PRIDES initially consisted of (i) a senior note due November 17, 2006 with a principal amount of \$25 per note, on which the Company pays interest quarterly at the annual rate of 6%, and (ii) a forward purchase contract pursuant to which the holder has agreed to purchase shares of the Company's common stock on November 17, 2004, with the number of shares to be determined based upon the average trading price of the Company's common stock for a period preceding that date. Depending on the average trading price in that period, the settlement rate will range from 0.4461 to 0.5130 shares per \$25 senior note. Based on the trading price of the Company's common stock on June 30, 2004, the purchase contracts would have a settlement rate of 0.4963.

As discussed in Note 16, in August 2004, the Company repurchased approximately \$51,000 aggregate principal amount of the senior notes, which notes were cancelled, in a tender offer. The related forward purchase contracts are now collateralized with treasuries (in lieu of senior notes) that were purchased on behalf of the tendering holders with tender offer proceeds. Any senior notes not tendered continue to be pledged to the Company to collateralize the respective holder's obligations under the forward purchase contracts, and remain subject to the terms of the remarketing described below.

In November 2004, the Company will receive \$230,000 in proceeds upon settlement of the forward purchase contracts and, at such time, issue a number of shares of its common stock to holders of the senior notes based on the settlement rate, as discussed above. In August 2004 (and then in November 2004, if not successful in August), the approximately \$179,000 aggregate principal amount of remaining senior notes will be subject to a remarketing (unless holders undertake certain specified actions) under the terms of the 2001 PRIDES. Assuming a successful remarketing, the outstanding senior notes (other than any senior notes repurchased by the Company from time to time) will have a maturity date of November 2006.

2004 Mandatory Convertible Securities

In February 2004, the Company completed a private placement of \$300,000 of mandatory convertible securities ("2004 PRIDES"). As described below, these securities are also structured to provide \$300,000 of additional proceeds to the Company following a successful remarketing and the exercise of forward purchase contracts in February 2008.

Each unit of the 2004 PRIDES initially consists of (i) a senior note due February 17, 2010 with a principal amount of \$1,000 per note, on which the Company pays interest quarterly at the annual rate of 4.125%, and (ii) a forward purchase contract pursuant to which the holder has agreed to purchase shares of the Company's common stock on February 17, 2008. Holders of the purchase contracts will receive a quarterly contract adjustment payment at the annual rate of 2.525% per \$1,000 contract. The current portion of the contract adjustment payments, approximately \$6,000, is recorded in current liabilities. The number of shares to be issued on February 17, 2008 will be determined based upon the average trading price of the Company's common stock for a period preceding that date. Depending on the average trading price in that period, the settlement rate will range from 11.7851 to 18.0311 shares per \$1,000 senior note. Based on the trading price of the Company's common stock as of June 30, 2004, the purchase contracts would have a settlement rate of 18.0311.

Each of the senior notes is pledged to the Company to collateralize the holder's obligations under the forward purchase contracts. Beginning in August 2007, under the terms of the 2004 PRIDES, the senior notes are expected to be remarketed to new investors. A successful remarketing will generate \$300,000 of proceeds to be used by the original holders of the 2004 PRIDES to honor their obligations on the forward purchase contracts. In exchange for the additional \$300,000 in payment on the forward

purchase contracts, the Company will issue shares of its common stock to the original holders of the senior notes. As referenced above, the number of shares of common stock to be issued will be determined by the market price of the Company's common stock at that time. Assuming a successful remarketing, the senior notes will remain outstanding until at least February 2010.

In connection with the 2004 PRIDES, the Company repurchased an aggregate of approximately 3.5 million shares of its common stock during the six months ended June 30, 2004. The share repurchases are intended to offset the Company's obligation to issue shares of its common stock in November 2004 under the terms of the forward purchase contracts of the 2001 PRIDES. Additional information regarding the Company's repurchase of common stock is provided in "Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities" on page 34.

5. Income Taxes

A summary of the provision for income taxes is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Federal:				
Current	\$ 1,479	\$ 4,921	\$ 3,275	\$ 8,901
Deferred	6,585	6,116	12,371	13,184
State:				
Current	211	703	467	1,272
Deferred	941	874	1,768	1,884
Provision for income taxes	\$ 9,216	\$ 12,614	\$ 17,881	\$ 25,241

The components of deferred tax assets and liabilities are as follows:

	December 31, 2003	June 30, 2004
Deferred assets (liabilities):		
State net operating loss and credit carryforwards	\$ 7,696	\$ 8,148
Intangible asset amortization	(90,626)	(102,869)
Deferred compensation	452	452
Convertible securities interest	(5,097)	(6,609)
Accruals	1,483	547
	(86,092)	(100,331)
Valuation allowance	(6,615)	(7,444)
Net deferred income taxes	\$ (92,707)	\$ (107,775)

Deferred tax liabilities are primarily the result of tax deductions for the Company's intangible assets and convertible securities. The Company amortizes its goodwill and certain other intangible assets for tax purposes only, reducing its tax basis below their carrying value for financial statement purposes. The Company's floating rate senior convertible securities currently generate tax deductions that are higher than the interest expense recorded for financial statement purposes.

The Company has state net operating loss carryforwards that will expire over a 15-year period. The Company also has state tax credit carryforwards which will expire over a 10-year period. The valuation allowance at December 31, 2003 and June 30, 2004 is related to the uncertainty of the realization of most of these loss and credit carryforwards, which realization depends upon the Company's generation of sufficient taxable income prior to their expiration.

6. Comprehensive Income

A summary of comprehensive income, net of taxes, is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Net Income	\$ 13,823	\$ 18,920	\$ 26,820	\$ 37,090
Change in unrealized foreign currency gains	55	61	244	61
Change in net unrealized gain on investment securities	322	508	322	1,076
Reclassification of unrealized gain on investment securities to realized gain	—	—	—	(318)
Comprehensive income	\$ 14,200	\$ 19,489	\$ 27,386	\$ 37,909

The components of accumulated other comprehensive income, net of taxes, were as follows:

	December 31, 2003	June 30, 2004
Unrealized gain on investment securities	\$ 944	\$ 1,702
Foreign currency translation adjustment	—	61

7. Earnings Per Share

The calculation of basic Earnings per share is based on the weighted average number of shares of the Company's common stock outstanding during the period. Diluted Earnings per share is similar to basic Earnings per share, but adjusts for the effect of the potential issuance of incremental shares of the Company's common stock. The following table reconciles basic average shares outstanding to shares used to compute diluted Earnings per share. (There were no adjustments to Net Income for purposes of computing Earnings per share.)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Average shares outstanding—basic	31,566,975	28,992,832	31,826,160	29,651,623
Incremental common shares	661,546	1,321,551	577,573	1,502,955
Average shares outstanding—diluted	32,228,521	30,314,383	32,403,733	31,154,578

The computations of diluted Earnings per share in the three and six months ended June 30, 2003 exclude the effect of the potential exercise of options to purchase approximately 2.4 million and 3.1 million shares, respectively, because the effect would have been anti-dilutive. The computations of diluted Earnings per share in the three months and six months ended June 30, 2004 exclude the effect of the potential exercise of options to purchase approximately 0.1 million shares in each period, because the effect would have been anti-dilutive.

As more fully discussed in Note 3, the Company has zero coupon convertible notes and floating rate senior convertible securities, which are convertible into shares of the Company's common stock upon the occurrence of certain events. During the periods presented, none of the conditions providing for conversion were met; therefore, no related adjustment was made to diluted Earnings per share. As discussed in Note 15, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards

Board ("FASB") is currently reviewing the earnings per share accounting for such contingently convertible securities.

This calculation also excludes the effect of the future exercise of the forward purchase contract component of each of the 2001 PRIDES and the 2004 PRIDES, as more fully discussed in Note 4, because the effect would have been anti-dilutive. The forward purchase contracts issued as part of the 2001 PRIDES will be exercised in the fourth quarter of 2004.

As also discussed in Note 4, during the six months ended June 30, 2004, the Company repurchased approximately 3.5 million shares of its common stock at an average price of \$55.73 per share under share repurchase programs authorized by the Company's Board of Directors. As of June 30, 2004, approximately 3.0 million shares remained authorized for repurchase. Additional information regarding the Company's repurchase of common stock is provided in "Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities" on page 34.

8. Commitments and Contingencies

The Company's operating agreements provide Affiliate managers the conditional right to require the Company to purchase their retained equity interests at certain intervals. The agreements also provide the Company the conditional right to require Affiliate managers to sell their retained equity interests upon their death, permanent incapacity or termination of employment and provide Affiliate managers the conditional right to require the Company to purchase such retained equity interests upon the occurrence of such events. These purchases are generally calculated based upon a multiple of the Affiliate's cash flow distributions, which is intended to represent fair value. As one measure of the potential magnitude of such purchases, in the event that a triggering event and resulting purchase occurred with respect to all such retained equity interests as of June 30, 2004, the aggregate amount of these payments would have totaled approximately \$712,948. In the event that all such transactions were closed, the Company would own the prospective cash flow distributions of all equity interests that would be purchased from Affiliate managers. As of June 30, 2004, this amount would represent approximately \$99,043 on an annualized basis. With the Company's approval, Affiliate managers are also permitted to sell their equity interests to other individuals or entities.

The Company and its Affiliates are subject to claims, legal proceedings and other contingencies in the ordinary course of their business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved in a manner unfavorable to the Company or its Affiliates. The Company and its Affiliates establish accruals for matters for which the outcome is probable and can be reasonably estimated. Management believes that any liability in excess of these accruals upon the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition or results of operations of the Company.

Certain Affiliates operate under regulatory authorities which require they maintain minimum financial or capital requirements. Management is not aware of any violations of such financial requirements occurring during the six months ended June 30, 2004.

9. Related Party Transactions

In connection with the purchase of additional Affiliate equity interests, the Company periodically issues notes to Affiliate partners. As of June 30, 2004, the notes totaled \$18,351, of which \$7,623 is included on the Consolidated Balance Sheet as a current liability and \$10,728 is included in other long-term liabilities.

10. Equity-Based Compensation Plans

The Company follows the provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), as amended by FASB Statement No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure" ("FAS 148"). The provisions of FAS 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), provided the entity discloses its pro forma Net Income and Earnings per share as if the fair value method had been applied in measuring compensation cost.

The Company continues to apply the intrinsic value method prescribed by APB 25 in accounting for its stock option incentive plans. Under this method, compensation cost is measured at the grant date based on the intrinsic value of the award and is recognized over the vesting period. Had compensation cost for the Company's stock option plans been determined based on the fair value method set forth in FAS 123, Net Income and Earnings per share would have been as follows:

	For the Three Months Ended June 30, ⁽¹⁾		For the Six Months Ended June 30, ⁽¹⁾	
	2003	2004	2003	2004
Net Income—as reported	\$ 13,823	\$ 18,920	\$ 26,820	\$ 37,090
Less: Total stock-based employee compensation expense determined under fair value, net of tax	2,322	949	4,644	949
Net Income—FAS 123 pro forma	\$ 11,501	\$ 17,971	\$ 22,176	\$ 36,141
Earnings per share—basic—as reported	\$ 0.44	\$ 0.65	\$ 0.84	\$ 1.25
Earnings per share—basic—FAS 123 pro forma	0.36	0.62	0.70	1.22
Earnings per share—diluted—as reported	0.43	0.62	0.83	1.19
Earnings per share—diluted—FAS 123 pro forma	0.36	0.59	0.68	1.16

(1) The Earnings per share data reflect a three-for-two stock split that occurred in March 2004.

11. Segment Information

The Company operates in three business segments representing the Company's three principal distribution channels: Mutual Fund, Institutional and High Net Worth. Revenue in the Mutual Fund distribution channel is earned from advisory and sub-advisory relationships with mutual funds. Revenue in the Institutional distribution channel is earned from relationships with foundations and endowments, defined benefit and defined contribution plans and Taft-Hartley plans. Revenue in the High Net Worth distribution channel is earned from relationships with wealthy individuals, family trusts and managed account programs. In the case of Affiliates with transaction-based brokerage fee businesses, revenue reported in each distribution channel includes fees earned for transactions on behalf of clients in that channel.

As described in greater detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations," in firms with revenue sharing arrangements, a certain percentage of revenue is allocated for use by management of an Affiliate in paying operating expenses of that Affiliate, including salaries and bonuses, and is called an "Operating Allocation." In reporting segment operating expenses, Affiliate expenses are allocated to a particular segment on a pro rata basis with respect to the revenue generated by that Affiliate in such segment. Generally, as revenue increases, additional compensation is typically paid to Affiliate management partners from the Operating Allocation. As a result, the contractual expense allocation pursuant to a revenue sharing arrangement may result in the characterization of any growth in profit margin beyond the Company's Owners' Allocation as an operating expense. All other operating expenses (excluding intangible amortization)

and interest expense, have been allocated to segments based on the proportion of cash flow distributions reported by Affiliates in each segment.

Statements of Income

	For the Three Months Ended June 30, 2003			
	Mutual Fund	Institutional	High Net Worth	Total
Revenue	\$ 44,746	\$ 40,478	\$ 31,477	\$ 116,701
Operating expenses:				
Depreciation and amortization	451	3,679	1,513	5,643
Other operating expenses	24,090	22,763	18,048	64,901
	<u>24,541</u>	<u>26,442</u>	<u>19,561</u>	<u>70,544</u>
Operating income	20,205	14,036	11,916	46,157
Non-operating (income) and expenses:				
Investment and other income	(599)	(441)	(444)	(1,484)
Interest expense	2,361	1,897	1,723	5,981
	<u>1,762</u>	<u>1,456</u>	<u>1,279</u>	<u>4,497</u>
Income before minority interest and income taxes	18,443	12,580	10,637	41,660
Minority interest	(7,580)	(6,758)	(4,283)	(18,621)
Income before income taxes	10,863	5,822	6,354	23,039
Income taxes	4,345	2,330	2,541	9,216
Net income	<u>\$ 6,518</u>	<u>\$ 3,492</u>	<u>\$ 3,813</u>	<u>\$ 13,823</u>

	For the Three Months Ended June 30, 2004			
	Mutual Fund	Institutional	High Net Worth	Total
Revenue	\$ 61,550	\$ 62,372	\$ 34,640	\$ 158,562
Operating expenses:				
Depreciation and amortization	396	3,408	1,979	5,783
Other operating expenses	34,437	31,773	20,157	86,367
	<u>34,833</u>	<u>35,181</u>	<u>22,136</u>	<u>92,150</u>
Operating income	26,717	27,191	12,504	66,412
Non-operating (income) and expenses:				
Investment and other income	(936)	(402)	(360)	(1,698)
Interest expense	3,458	3,385	1,967	8,810
	<u>2,522</u>	<u>2,983</u>	<u>1,607</u>	<u>7,112</u>
Income before minority interest and income taxes	24,195	24,208	10,897	59,300
Minority interest	(9,791)	(12,922)	(5,053)	(27,766)
Income before income taxes	14,404	11,286	5,844	31,534
Income taxes	5,762	4,515	2,337	12,614
Net income	<u>\$ 8,642</u>	<u>\$ 6,771</u>	<u>\$ 3,507</u>	<u>\$ 18,920</u>

For the Six Months Ended June 30, 2003

	Mutual Fund	Institutional	High Net Worth	Total
Revenue	\$ 86,192	\$ 77,264	\$ 63,492	\$ 226,948
Operating expenses:				
Depreciation and amortization	798	7,344	3,029	11,171
Other operating expenses	47,244	44,030	36,424	127,698
	48,042	51,374	39,453	138,869
Operating income	38,150	25,890	24,039	88,079
Non-operating (income) and expenses:				
Investment and other income	(1,281)	(841)	(837)	(2,959)
Interest expense	4,487	3,571	3,364	11,422
	3,206	2,730	2,527	8,463
Income before minority interest and income taxes	34,944	23,160	21,512	79,616
Minority interest	(14,204)	(12,175)	(8,536)	(34,915)
Income before income taxes	20,740	10,985	12,976	44,701
Income taxes	8,296	4,395	5,190	17,881
Net income	\$ 12,444	\$ 6,590	\$ 7,786	\$ 26,820

For the Six Months Ended June 30, 2004

	Mutual Fund	Institutional	High Net Worth	Total
Revenue	\$ 121,853	\$ 117,613	\$ 70,730	\$ 310,196
Operating expenses:				
Depreciation and amortization	779	6,691	3,953	11,423
Other operating expenses	68,121	61,639	40,941	170,701
	68,900	68,330	44,894	182,124
Operating income	52,953	49,283	25,836	128,072
Non-operating (income) and expenses:				
Investment and other income	(2,050)	(791)	(741)	(3,582)
Interest expense	6,479	5,857	3,789	16,125
	4,429	5,066	3,048	12,543
Income before minority interest and income taxes	48,524	44,217	22,788	115,529
Minority interest	(19,413)	(23,446)	(10,339)	(53,198)
Income before income taxes	29,111	20,771	12,449	62,331
Income taxes	11,792	8,404	5,045	25,241
Net income	\$ 17,319	\$ 12,367	\$ 7,404	\$ 37,090

Balance Sheet Information

	Mutual Fund	Institutional	High Net Worth	Total
Total assets as of December 31, 2003	\$ 628,417	\$ 560,483	\$ 330,305	\$ 1,519,205
Total assets as of June 30, 2004	\$ 659,163	\$ 717,640	\$ 325,260	\$ 1,702,063

12. Acquisitions

On June 17, 2004, the Company acquired 60% of Genesis Asset Managers ("Genesis"). Headquartered in London, Genesis is an investment manager of emerging markets equity securities, primarily for institutional clients. The results of Genesis' operations have been included in the consolidated financial statements since that date. The transaction was financed through the Company's available cash.

During the six months ended June 30, 2004, the Company also made payments to acquire interests in existing Affiliates, which were financed through available cash.

13. Goodwill and Acquired Client Relationships

During the six months ended June 30, 2004, the Company completed its investment in Genesis, acquired additional interests in existing Affiliates and transferred certain interests to Affiliate management. The following table presents the change in goodwill associated with such transactions, net of the cost of the transferred interests. All goodwill acquired during the quarter is deductible for tax purposes.

	<u>Mutual Fund</u>	<u>Institutional</u>	<u>High Net Worth</u>	<u>Total</u>
Balance as of December 31, 2003	\$ 272,917	\$ 296,012	\$ 182,678	\$ 751,607
Goodwill acquired, net	33	60,297	209	60,539
Balance as of June 30, 2004	\$ 272,950	\$ 356,309	\$ 182,887	\$ 812,146

The following table reflects the components of intangible assets:

	<u>December 31, 2003</u>		<u>June 30, 2004</u>	
	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:				
Acquired client relationships	\$ 233,004	\$ 65,898	\$ 255,682	\$ 74,162
Non-amortized intangible assets:				
Acquired client relationships—mutual fund management contracts	197,323	—	197,323	—
Goodwill	751,607	—	812,146	—

Amortizable acquired client relationships are amortized using the straight-line method over a weighted average life of approximately 14 years. Amortization expense was \$4,033 and \$4,163 for the three months ended June 30, 2003 and 2004, respectively and \$8,047 and \$8,264 for the six months ended June 30, 2003 and 2004, respectively. The Company estimates that amortization expense will be approximately \$18,000 per year in 2005 through 2009, assuming no additional investments in new or existing Affiliates.

14. Derivative Financial Instruments

The Company periodically uses interest rate derivative contracts to manage market exposures associated with its variable interest rate debt by creating offsetting market exposures. In May 2004, the Company entered into a \$50,000 notional amount interest rate swap contract, which becomes effective in February 2005. This swap contract was entered into with a major commercial bank counterparty to exchange the difference between fixed-rate and floating-rate interest amounts calculated by reference to the notional amount.

The Company records all derivatives on the balance sheet at fair value. As a cash flow hedge, the effective portion of the unrealized gain or loss on the derivative instrument is recorded in accumulated

other comprehensive income as a separate component of stockholders' equity and reclassified into earnings when periodic settlement of variable rate liabilities are recorded in earnings. At June 30, 2004, the unrealized gain on the derivative instrument was not material.

15. Recent Accounting Developments

In March 2004, the EITF reached a consensus on Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings per Share" ("EITF 03-6"). EITF 03-6 addresses the computation of earnings per share by companies that have issued securities other than common stock, such as forward purchase contracts, which contractually entitle the holder to participate in dividends. EITF 03-6 is effective for reporting periods ending after March 31, 2004. As EITF 03-6 does not apply to variable share forward purchase contracts (which are the type of forward purchase contracts contained in the Company's 2001 PRIDES and 2004 PRIDES), EITF 03-6 is not applicable to the Company.

In July 2004, the EITF released for public comment Issue 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect of Diluted Earnings per Share" ("EITF 04-8"). As described in Note 3, the Company's zero coupon senior convertible securities and floating rate senior convertible securities are contingently convertible securities.

Under current accounting principles (discussed further in Note 7), shares of common stock that may be issued under the terms of the contingently convertible securities are excluded from earnings per share calculations until (among other factors) the trading price of the Company's common stock exceeds a defined threshold. If adopted, EITF 04-8 would require these potentially issuable shares to be included in earnings per share calculations (using the "if-converted" method) even if this threshold has not been met. As of June 30, 2004, the stock price conversion threshold was \$62.50 for the zero coupon senior convertible securities and \$65.00 for the floating rate senior convertible securities; the closing price of the Company's common stock on that date was \$50.37.

Following a public comment period, the EITF is scheduled to further discuss EITF 04-8 at its meetings on September 29 and 30, 2004. If approved in its current form, EITF 04-8 would then be reviewed by the FASB. While it is not clear whether the EITF or FASB will approve this standard, if EITF 04-8 is approved, it may become effective as early as the fourth quarter of 2004 and potentially require the restatement of prior reporting period results.

16. Subsequent Events

On July 14, 2004, the Company announced that it had reached a definitive agreement to acquire approximately \$3.0 billion in assets under management from Fremont Investment Advisors, Inc. ("FIA") through The Managers Funds LLC. FIA is the investment advisor to the Fremont Funds, 13 no-load mutual funds managed by independent subadvisors and investment professionals at FIA. The closing of the transaction is subject to the satisfactory settlement of the regulatory inquiries into trading practices at the Fremont Funds, as well as customary closing conditions (including the approval of the shareholders of the Fremont Funds) for transactions of this type.

On July 22, 2004, the Company commenced a cash tender offer to purchase its outstanding 6% senior notes due November 17, 2006. The notes were originally issued on December 21, 2001 by the Company in connection with its 2001 PRIDES, of which each \$25 unit consisted of a purchase contract for a specified number of shares of AMG common stock, collateralized by the 6% senior notes. For each \$1,000 principal amount of notes validly tendered, the Company paid an amount in cash equal to the sum of (i) a fixed cash payment of \$21.25 and (ii) the price of a zero-coupon U.S. Treasury security in a principal amount at maturity of \$1,000 and with a maturity date of November 15, 2004. By tendering their notes, the holders directed the depository agent for the tender offer to use that portion of the consideration related to the Treasury securities to purchase the Treasury securities which are

required to be substituted as collateral under the pledge arrangement as security for such holders' obligations under the purchase contracts. The Company completed the tender offer on August 5, 2004, and repurchased an aggregate of approximately \$51,000 principal amount of its outstanding 6% senior notes. The approximately \$179,000 aggregate principal amount of remaining senior notes will be subject to the terms of a remarketing agreement. The fixed cash payment on the tendered senior notes will be reported as an expense in the third quarter of 2004.

The Company has provided notice of its intention to exercise its option to purchase a 19% interest in its Affiliate, Friess Associates, LLC. The transaction is expected to close in October 2004 and to be funded with available cash.

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

Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, in our other filings with the Securities and Exchange Commission, in our press releases and in oral statements made with the approval of an 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, among others, the following:

- our performance is directly affected by changing conditions in the financial markets generally and in the equity markets particularly, and a decline or a lack of sustained growth in these markets may result in decreased advisory fees or performance fees and a corresponding decline (or lack of growth) in the cash flow distributable to us from our Affiliates and our operating results;
- we cannot be certain that we will be successful in finding or investing in additional investment management firms on favorable terms, that we will be able to consummate announced investments in new investment management firms, or that existing and new Affiliates will have favorable operating results;
- we may need to raise capital by making long-term or short-term borrowings or by selling shares of our stock or other securities in order to finance investments in additional investment management firms or additional investments in our existing Affiliates, and we cannot be sure that such capital will be available to us on acceptable terms, if at all;
- our earnings per share measures may be adversely affected by potential changes in the accounting for our contingently convertible securities, as discussed in this Quarterly Report on Form 10-Q; and
- those certain other factors discussed under the caption "Business-Cautious Statements" in our Annual Report on Form 10-K for the year ended December 31, 2003, and in any other filings we make with the Securities and Exchange Commission from time to time.

These factors (among others) could affect our financial performance and cause actual results to differ materially from historical earnings and those presently anticipated and projected. 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. In that respect, we wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

Overview

We are an asset management company with equity investments in a diverse group of mid-sized investment management firms (our "Affiliates"). As of June 30, 2004, our affiliated investment management firms managed approximately \$102.2 billion in assets across a broad range of investment styles and in three principal distribution channels: Mutual Fund, Institutional and High Net Worth. We pursue a growth strategy designed to generate shareholder value through the internal growth of our existing businesses across these three channels, in addition to investments in mid-sized investment management firms and strategic transactions and relationships designed to enhance our Affiliates' businesses and growth prospects.

Through our Affiliates, we provide more than 150 investment products across a wide variety of asset classes and investment styles in our three principal distribution channels. We believe that our diversification across asset classes, investment styles and distribution channels helps to mitigate our

exposure to the risks created by changing market environments. The following summarizes our operations in our three principal distribution channels.

- Our Affiliates provide advisory or sub-advisory services to more than 50 mutual funds. These funds are distributed to retail and institutional clients directly and through intermediaries, including independent investment advisors, retirement plan sponsors, broker-dealers, major fund marketplaces and bank trust departments.
- Through our Affiliates, we offer more than 75 investment products across more than 25 different investment styles in the Institutional distribution channel, including small, small/mid, mid and large capitalization value and growth equity. In addition, our Affiliates offer fixed income and specialty products. Through this distribution channel, our Affiliates manage assets for foundations and endowments, defined benefit and defined contribution plans for corporations and municipalities, and Taft-Hartley plans, with disciplined and focused investment styles that address the specialized needs of institutional clients.
- The High Net Worth distribution channel is comprised broadly of two principal client groups. The first group consists principally of direct relationships with ultra high net worth and affluent individuals and families and charitable foundations. For these clients, our Affiliates provide investment management or customized investment counseling and fiduciary services. The second group consists of individual managed account client relationships established through intermediaries, generally brokerage firms or other sponsors. Our Affiliates provide investment management services through more than 90 managed account programs.

While we operate our business through our Affiliates in our three principal distribution channels, we strive to maintain each Affiliate's distinct entrepreneurial culture and independence through our investment structure. Our principal investment structure involves the ownership of a majority interest in our Affiliates, with each Affiliate organized as a separate firm. Each Affiliate operating agreement is tailored to meet that Affiliate's particular characteristics and to enable us to cause or prevent certain actions to protect our interests.

We have revenue sharing arrangements with most of our Affiliates. Under these arrangements, a percentage of revenue (or in certain cases different percentages relating to the various sources or amounts of revenue of a particular Affiliate) is allocated for use by management of that Affiliate in paying operating expenses of the Affiliate, including salaries and bonuses. We call this the "Operating Allocation." The remaining portion of the Affiliate's revenue is allocated to the owners of that Affiliate (including us), and called the "Owners' Allocation." Each Affiliate distributes its Owners' Allocation to its managers and to us generally in proportion to their and our respective ownership interests in that Affiliate.

We only agree to a particular revenue sharing arrangement if we believe that the Operating Allocation will cover operating expenses of the Affiliate, including a potential increase in expenses or decrease in revenue without a corresponding decrease in operating expenses. To the extent that we are unable to anticipate changes in the revenue and expense base of an Affiliate, the agreed-upon Operating Allocation may not be sufficient to pay for all of the Affiliate's operating expenses. The allocations and distributions of cash to us under the Owners' Allocation generally have priority over the allocations and distributions to the Affiliate's managers, which help to protect us if there are any expenses in excess of the Operating Allocation of the 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 managers until that portion is eliminated, and then reduce the portion allocated to us. Any such reduction in our portion of the Owners' Allocation is required to be paid back to us out of the portion of future Owners' Allocation allocated to the Affiliate's managers. Nevertheless, we may agree to adjustments to revenue sharing arrangements to accommodate our business needs or those of our Affiliates, including deferring or foregoing the receipt of some portion or all of our share of an Affiliate's revenue to permit the Affiliate to fund operating expenses or

restructuring our relationship with an Affiliate, if we believe that doing so will maximize the long-term benefits to us. In addition, a revenue sharing arrangement may be modified to a profit-based arrangement (as described below) to better accommodate our business needs or those of our Affiliates.

One of the purposes of our revenue sharing arrangements is to provide ongoing incentives for Affiliate managers by allowing them:

- to participate in the growth of their firm's revenue, which may increase their compensation from the Operating Allocation and their distributions from the Owners' Allocation; and
- to control operating expenses, thereby increasing the portion of the Operating Allocation available for growth initiatives and compensation.

An Affiliate's managers therefore have incentives to increase revenue (thereby increasing the Operating Allocation and their share of the Owners' Allocation) and to control expenses (thereby increasing the amount of Operating Allocation available for their compensation). For the six months ended June 30, 2004, approximately \$45.4 million was reported as compensation to our Affiliate managers from their respective Operating Allocations. Additionally, during this period we allocated approximately \$53.2 million of Affiliates' profits to their managers (referred to on our income statement as "minority interest").

Some of our Affiliates are not subject to a revenue sharing arrangement, but instead operate on a profit-based model similar to a wholly-owned subsidiary. In our profit-based Affiliates, we participate in a budgeting process with the Affiliate and receive as cash flow a share of its profits. As a result, we participate fully in any increase or decrease in the revenue or expenses of such firms. In those cases, we generally provide incentives to management through compensation arrangements based on the performance of the Affiliate. In recent periods, approximately 10% of our earnings has been generated by our profit-based Affiliates.

Net Income on our income statement reflects the consolidation of substantially all of the revenue of our Affiliates, reduced by:

- the operating expenses of our Affiliates;
- our operating expenses (i.e., our holding company expenses, including interest, amortization, income taxes and compensation for our employees); and
- the profits allocated to our Affiliates' managers, or minority interest.

As discussed above, for Affiliates with revenue sharing arrangements, the operating expenses of the Affiliate as well as its managers' minority interest generally increase (or decrease) as the Affiliate's revenue increases (or decreases) because of the direct relationship established in many of our agreements between the Affiliate's revenue and its Operating Allocation and Owners' Allocation. At our profit-based Affiliates, expenses may or may not correspond to increases or decreases in the Affiliates' revenues.

Our level of profitability will depend on a variety of factors, including:

- those affecting the financial markets generally and the equity markets particularly, which could potentially result in considerable increases or decreases in the assets under management at our Affiliates;
- the level of Affiliate revenue, 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;
- our receipt of Owners' Allocation from Affiliates with revenue sharing arrangements, which depends on the ability of our existing and future Affiliates to maintain certain levels of operating profit margins;

- the increases or decreases in the revenue and expenses of Affiliates that operate on a profit-based model;
- the availability and cost of capital with which we finance our existing and new investments;
- our success in making new investments and the terms upon which such transactions are completed;
- the level of intangible assets and the associated amortization expense resulting from our investments;
- the level of expenses incurred for holding company operations, including compensation for our employees; and
- the level of taxation to which we are subject.

Through our affiliated investment management firms, we derive most of our revenue from the provision of investment management services. Investment management fees ("asset-based fees") are usually determined as a percentage fee charged on periodic values of a client's assets under management. Certain clients are billed for all or a portion of their accounts based upon assets under management valued at the beginning of a billing period ("in advance"). Other clients are billed for all or a portion of their accounts based upon assets under management valued at the end of the billing period ("in arrears"). For example, most client accounts in the High Net Worth distribution channel are billed in advance, and most client accounts in the Institutional distribution channel are billed in arrears. Clients in the Mutual Fund distribution channel are billed based upon average daily assets under management. 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, in the High Net Worth and Institutional distribution channels, certain clients are billed on the basis of investment performance ("performance fees"). Performance fees are inherently dependent on investment results and therefore may vary substantially from period to period.

Principally, our assets under management are directly managed by our Affiliates. One of our Affiliates also manages assets in the Institutional distribution channel using an overlay strategy. Overlay assets (assets that are managed subject to strategies which employ futures, options or other derivative securities) generate asset-based fees that are typically substantially lower than the asset-based fees generated by our Affiliates' other investment strategies. Therefore, changes in directly managed assets generally have a greater impact on our revenue from asset-based fees than changes in total assets under management (a figure which includes overlay assets).

In addition to the revenue derived from providing investment management services, we derive a small portion of our revenue from transaction-based brokerage fees and distribution fees at certain Affiliates. In the case of the transaction-based brokerage business at Third Avenue Management LLC ("Third Avenue"), our percentage participation in Third Avenue's brokerage fee revenue is substantially less than our percentage participation in the investment management fee revenue realized by Third Avenue and our other Affiliates. For this reason, increases or decreases in our consolidated revenue that are attributable to Third Avenue brokerage fees will not affect our earnings in the same manner as investment management services revenue from Third Avenue and our other Affiliates.

Our most recent investment, Genesis Asset Managers ("Genesis"), closed in June 2004. Headquartered in London, Genesis is an investment manager of emerging markets equity securities, primarily for institutional clients. We acquired a 60% interest in Genesis; Genesis' management partners retain the remaining 40% interest and continue to direct its day-to-day operations. In addition, in July 2004, we announced our definitive agreement to acquire approximately \$3.0 billion in assets under management from Fremont Investment Advisors, Inc. ("FIA") through The Managers Funds LLC. FIA is the investment advisor to the Fremont Funds, 13 no-load mutual funds managed by independent subadvisors and investment professionals at FIA. The closing of the transaction is subject

to the satisfactory settlement of the regulatory inquiries into trading practices at the Fremont Funds, as well as customary closing conditions (including the approval of the shareholders of the Fremont Funds) for transactions of this type.

Results of Operations

The following tables present our Affiliates' reported assets under management by operating segment (which are also referred to as distribution channels in this Quarterly Report on Form 10-Q) and a statement of changes for each period.

Assets under Management—Operating Segment	December 31, 2003	June 30, 2004
<i>(dollars in billions)</i>		
Mutual Fund	\$ 23.3	\$ 25.8
Institutional	44.7	54.3
High Net Worth	23.5	22.1
	<u>\$ 91.5</u>	<u>\$ 102.2</u>
Directly managed assets—percent of total	91%	92%
Overlay assets—percent of total	9%	8%
	<u>100%</u>	<u>100%</u>

Assets under Management—Statement of Changes	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2004
<i>(dollars in billions)</i>		
Beginning of period	\$ 94.8	\$ 91.5
New investments ⁽¹⁾	7.2	7.6
Net client cash flows	—	0.2
Investment performance	0.2	2.9
End of period	<u>\$ 102.2</u>	<u>\$ 102.2</u>

(1) We acquired a 60% interest in Genesis on June 17, 2004, and we acquired the mutual fund business of 40/86 Advisors, Inc. (previously Consec Capital Management, Inc.) through The Managers Funds LLC on March 31, 2004.

The operating segment analysis presented in the following table is based on average assets under management. For the Mutual Fund distribution channel, average assets under management represents an average of the daily net assets under management. For the Institutional and High Net Worth distribution channels, average assets under management represents an average of the assets at the beginning and end of each calendar quarter during the applicable period. We believe that this analysis

more closely correlates to the billing cycle of each distribution channel and, as such, provides a more meaningful relationship to revenue.

(in millions, except as noted)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2003	2004	% Change	2003	2004	% Change
Average assets under management⁽¹⁾ (in billions)						
Mutual Fund	\$ 17.2	\$ 24.9	45%	\$ 16.6	\$ 24.6	48%
Institutional	35.6	47.9	35%	35.0	46.6	33%
High Net Worth	20.5	22.6	10%	20.5	22.9	12%
Total	\$ 73.3	\$ 95.4	30%	\$ 72.1	\$ 94.1	31%
Revenue⁽²⁾						
Mutual Fund	\$ 44.7	\$ 61.6	38%	\$ 86.2	\$ 121.9	41%
Institutional	40.5	62.4	54%	77.2	117.6	52%
High Net Worth	31.5	34.6	10%	63.5	70.7	11%
Total	\$ 116.7	\$ 158.6	36%	\$ 226.9	\$ 310.2	37%
Net income⁽²⁾						
Mutual Fund	\$ 6.5	\$ 8.6	32%	\$ 12.4	\$ 17.3	40%
Institutional	3.5	6.8	94%	6.6	12.4	88%
High Net Worth	3.8	3.5	(8%)	7.8	7.4	(5%)
Total	\$ 13.8	\$ 18.9	37%	\$ 26.8	\$ 37.1	38%
EBITDA⁽³⁾						
Mutual Fund	\$ 13.7	\$ 18.2	33%	\$ 26.0	\$ 36.4	40%
Institutional	11.4	18.1	59%	21.9	33.3	52%
High Net Worth	9.6	9.8	2%	19.4	20.2	4%
Total	\$ 34.7	\$ 46.1	33%	\$ 67.3	\$ 89.9	34%

(1) Assets under management attributable to investments that closed during the relevant periods are included on a weighted average basis for the period from the closing date of the investments.

(2) Note 11 to our Consolidated Financial Statements describes the basis of presentation of the financial results of our three operating segments.

(3) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. As a measure of liquidity, we believe that EBITDA is useful as an indicator of our ability to service debt, make new investments and meet working capital requirements. EBITDA is not a measure of liquidity under generally accepted accounting principles and should not be considered an alternative to cash flow from operations. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies. Our use of EBITDA, including a reconciliation to cash flow from operations, is described in greater detail in "Liquidity and Capital Resources." For purposes of our distribution channel operating results, holding company expenses have been allocated based on the proportion of aggregate cash flow distributions reported by each Affiliate in the particular distribution channel.

Revenue

Our revenue is generally determined by the following factors:

- our assets under management (including increases or decreases relating to new investments, net client cash flows or changes in the value of assets that are attributable to fluctuations in the equity markets);
- the portion of our assets across the three operating segments and our Affiliates, which realize different fee rates;
- the portion of our directly managed and overlay assets, which realize different fee rates;

- the recognition of any performance fees; and
- the level of transaction-based brokerage fees.

In addition, the billing patterns of our Affiliates will have an impact on revenue in cases of rising or falling markets. As described previously, advisory fees billed in advance will not reflect subsequent changes in the market value of assets under management for that period, while advisory fees billed in arrears will reflect changes in the market value of assets under management for that period. As a consequence, when equity market declines result in decreased assets under management in a particular period, revenue reported on accounts that are billed in advance of that period may appear to have a relatively higher quarterly fee rate, and in the case of equity market appreciation, revenue reported on accounts that are billed in advance of that period may appear to have a relatively lower quarterly fee rate.

Our revenue increased 36% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 37% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, primarily from an increase in average assets under management. This increase in average assets under management resulted principally from positive investment performance, and, to a lesser extent, positive net client cash flows. Further contributing to the growth in revenue were higher performance fees in the three and six months ended June 30, 2004, as compared to the same periods in 2003.

The following discusses the changes in our revenue by operating segments.

Mutual Fund Distribution Channel

The increase in revenue of 38% in the Mutual Fund distribution channel in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and the increase in revenue of 41% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, resulted primarily from an increase in average assets under management. This increase in average assets under management resulted principally from positive investment performance, and, to a lesser extent, positive net client cash flows. The increase in revenue was proportionately less than the growth in average assets under management because of a relative increase in assets under management that realize lower fees.

Institutional Distribution Channel

The increase in revenue of 54% in the Institutional distribution channel in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and the increase in revenue of 52% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, resulted primarily from an increase in average assets under management. This increase in average assets under management resulted principally from positive investment performance, and, to a lesser extent, positive net client cash flows. Further contributing to the growth in revenue were higher performance fees in the three and six months ended June 30, 2004, as compared to the same periods in 2003.

High Net Worth Distribution Channel

The increase in revenue of 10% in the High Net Worth distribution channel in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and the increase in revenue of 11% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, resulted primarily from an increase in average assets under management. The increase in average assets under management was primarily attributable to positive investment performance, partially offset by net client cash outflows.

Operating Expenses

The following table summarizes our consolidated operating expenses.

(dollars in millions)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2003	2004	% Change	2003	2004	% Change
Compensation and related expenses	\$ 40.2	\$ 57.6	43%	\$ 79.5	\$ 114.9	45%
Selling, general and administrative	20.9	25.3	21%	40.4	48.6	20%
Amortization of intangible assets	4.0	4.2	5%	8.1	8.3	2%
Depreciation and other amortization	1.6	1.6	—	3.1	3.1	—
Other operating expenses	3.8	3.5	(8%)	7.8	7.2	(8%)
Total operating expenses	\$ 70.5	\$ 92.2	31%	\$ 138.9	\$ 182.1	31%

A substantial portion of our operating expenses is incurred by our Affiliates, and a substantial majority of Affiliate expenses is incurred by Affiliates with revenue sharing arrangements. For Affiliates with revenue sharing arrangements, an Affiliate's Operating Allocation percentage generally determines its operating expenses. Most notably, our compensation expenses are generally impacted by increases or decreases in each Affiliate's revenue and the corresponding increases or decreases in their respective aggregate Operating Allocations. During each of the three and six month periods ended June 30, 2004, approximately 40% of our consolidated compensation expense was attributable to compensation allocated to our Affiliate managers from their respective Operating Allocations. As described previously, the percentage of revenue allocated to operating expenses varies from one Affiliate to another and can vary within an Affiliate depending on the source or amounts of revenue. As a result, changes in our aggregate revenue may not impact our consolidated operating expenses to the same degree. In addition, we participate fully in any increase or decrease in revenue and expenses at our profit-based Affiliates.

Compensation and related expenses increased 43% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 45% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003. The increases in compensation and related expenses reflect the relationship between revenue and operating expenses at Affiliates with revenue sharing arrangements, which experienced aggregate increases in revenue, and accordingly, reported higher compensation expenses. The increases were also related to higher holding company compensation.

Selling, general and administrative expenses increased 21% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 20% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003. The increase was principally attributable to higher sub-advisory and distribution expenses resulting from the growth in assets under management at The Managers Funds LLC, as well as increases in holding company expenses, principally from professional fees.

Amortization of intangible assets increased 5% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 2% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, principally from an increase in definite-lived intangible assets resulting from our purchases of additional interests in existing Affiliates during 2003.

Other operating expenses decreased 8% in the three and six months ended June 30, 2004, as compared to the three and six months ended June 30, 2003, principally as a result of a net decrease in spending by Affiliates on miscellaneous items.

Other Income Statement Data

The following table summarizes other income statement data.

<i>(dollars in millions)</i>	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2003	2004	% Change	2003	2004	% Change
Minority interest	\$ 18.6	\$ 27.8	49%	\$ 34.9	\$ 53.2	52%
Income tax expense	9.2	12.6	37%	17.9	25.2	41%
Interest expense	6.0	8.8	47%	11.4	16.1	41%
Investment and other income	1.5	1.7	13%	3.0	3.6	20%

Minority interest increased 49% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 52% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, principally as a result of the previously discussed increase in revenue. During these periods, the percentage increase in minority interest was proportionately greater than the percentage increase in revenue because of a decrease in investment spending by certain Affiliates from their Owners' Allocation (which has the corresponding effect of increasing minority interest). Additionally, during these periods, revenue increased at profit-based Affiliates; changes in revenue at profit-based Affiliates do not necessarily result in proportionate changes in minority interest because expenses are determined by a budgeting process and may not correlate to changes in revenue.

Income taxes increased by 37% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, as a result of the increase in income before taxes. Income taxes increased by 41% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003. This increase is attributable to the increase in income before taxes, as well as the increase in our effective tax rate from 40% in the six months ended June 30, 2003 to 40.5% in the six months ended June 30, 2004. The tax rate increased for the six months ended June 30, 2004, as a result of a modest shift of income to states with higher tax rates. We expect our tax rate to be 40% for the remainder of 2004.

Interest expense increased 47% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 41% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003. The increases were principally attributable to our issuance of \$300 million of mandatory convertible securities in February 2004, which we refer to as the "2004 PRIDES" (as described in greater detail in "Liquidity and Capital Resources").

Investment and other income increased 13% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 20% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003. The increases were principally attributable to the maintenance of higher levels of excess cash at the holding company following our issuance of the 2004 PRIDES, as discussed above.

Net Income

The following table summarizes Net Income:

<i>(dollars in millions)</i>	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2003	2004	% Change	2003	2004	% Change
Net Income	\$ 13.8	\$ 18.9	37%	\$ 26.8	\$ 37.1	38%

Net Income increased 37% in the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, and increased 38% in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, principally as a result of the increases in revenue and investment and other income, partially offset by increases in reported operating, interest, minority interest and tax expenses, as described above.

Supplemental Performance Measure

As supplemental information, we provide a non-GAAP performance measure that we refer to as Cash Net Income. This measure is provided in addition to, but not as a substitute for, Net Income. Cash Net Income is defined as Net Income plus amortization and deferred taxes related to intangible assets plus Affiliate depreciation. We consider Cash Net Income an important measure of our financial performance, as we believe it best represents operating performance before non-cash expenses relating to our acquisition of interests in our Affiliates. Cash Net Income is used by our management and Board of Directors as a principal performance benchmark, including as a measure for aligning executive compensation with stockholder value.

Since our acquired assets do not generally depreciate or require replacement by AMG, and since they generate deferred tax expenses that are unlikely to reverse, we add back these non-cash expenses to Net Income to measure operating performance. We add back amortization attributable to acquired client relationships because this expense does not correspond to the changes in value of these assets, which do not diminish predictably over time. The portion of deferred taxes generally attributable to intangible assets (including goodwill) that we no longer amortize but which continues to generate tax deductions is added back, because these accruals would be used only in the event of a future sale of an Affiliate or an impairment charge, which we consider unlikely. We add back the portion of consolidated depreciation expense incurred by our Affiliates because under our Affiliates' operating agreements we are generally not required to replenish these depreciating assets. Conversely, we do not add back the deferred taxes relating to our floating rate senior convertible securities or other depreciation expenses.

The following table provides a reconciliation of Net Income to Cash Net Income:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
			Ended June 30,	
	2003	2004	2003	2004
<i>(dollars in millions)</i>				
Net Income	\$ 13.8	\$ 18.9	\$ 26.8	\$ 37.1
Intangible amortization	4.0	4.2	8.1	8.3
Intangible-related deferred taxes	6.0	6.2	11.9	12.2
Affiliate depreciation	1.1	1.1	2.2	2.1
Cash Net Income	\$ 24.9	\$ 30.4	\$ 49.0	\$ 59.7

Cash Net Income increased 22% in the three and six months ended June 30, 2004, as compared to the three and six months ended June 30, 2003, primarily as a result of the previously described factors affecting Net Income.

Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity and capital resources:

<i>(dollars in millions)</i>	December 31, 2003		June 30, 2004	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Balance Sheet Data				
Cash and cash equivalents	\$	253.3	\$	344.7
Senior revolving credit facility		—		—
Zero coupon senior convertible notes		123.3		123.6
Floating rate senior convertible securities		300.0		300.0
Mandatory convertible securities		230.0		530.0
Cash Flow Data				
Operating cash flow	\$	35.8	\$	65.6
Investing cash flow		(6.2)		(78.1)
Financing cash flow		(0.5)		(2.6)
EBITDA ⁽¹⁾		34.7		46.1
				67.3
				89.9

(1) The definition of EBITDA is presented in Note 3 on page 22.

We have met our cash requirements primarily through cash generated by operating activities and the issuance of convertible debt securities. For the six months ended June 30, 2004, our principal uses of cash were to make investments in new and existing Affiliates, repurchase shares of our common stock and make distributions to Affiliate managers. We expect that our principal uses of cash for the foreseeable future will be for investments in new and existing Affiliates, distributions to Affiliate managers, payment of principal and interest on outstanding debt, the repurchase of debt securities, the repurchase of shares of our common stock and for working capital purposes.

We view our ratio of debt to EBITDA (our "leverage ratio") as an important gauge of our ability to service debt, make new investments and access capital. Consistent with industry practice, we do not consider our mandatory convertible securities as debt for the purpose of determining our leverage ratio. As more fully discussed below, each unit of our 2001 PRIDES and 2004 PRIDES is comprised of a senior note and a forward purchase contract. Under the terms of each security, the exercise of the forward purchase contracts at the respective remarketing dates will result in the issuance of shares of our common stock that will generate cash proceeds sufficient to amortize debt in an amount equal to the remaining note portion of each security. We also view our leverage on a "net debt" basis by deducting our cash and cash equivalents from our debt balance. The leverage covenant of our senior revolving credit facility is generally consistent with our treatment of the PRIDES securities and our net debt approach. At June 30, 2004, our leverage ratio was 0.47:1.

Senior Revolving Credit Facility

We have a \$250 million senior revolving credit facility (the "Facility") with several major commercial banks. The Facility, which is scheduled to mature in August 2005, currently provides that we may borrow at rates of interest (based either on the Eurodollar rate or the Prime rate as in effect from time to time) that vary depending on our credit ratings. Subject to the agreement of the lenders (or prospective lenders) to increase their commitments, we have the option to increase the Facility to \$350 million. The Facility contains financial covenants with respect to net worth, leverage and interest

coverage, and requires us to pay a quarterly commitment fee on any unused portion. The Facility also contains customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends and fundamental corporate changes. Any borrowings under the Facility would be collateralized by pledges of all capital stock or other equity interests owned by us.

Zero Coupon Senior Convertible Notes

In May 2001, we completed a private placement of zero coupon senior convertible notes in which we sold an aggregate of \$251 million principal amount at maturity of zero coupon senior convertible notes due 2021, accreting at a rate of 0.50% per year. Each \$1,000 principal amount at maturity zero coupon senior convertible note is convertible into 17.429 shares of our common stock (the "settlement rate") upon the occurrence of certain events, including the following: (i) if the closing price of a share of our common stock is more than a specified price over certain periods (initially \$62.36 and increasing incrementally at the end of each calendar quarter to \$63.08 on April 1, 2021); (ii) if the credit rating assigned by Standard & Poor's to the securities is below BB-; or (iii) if we call the securities for redemption. The holders may require us to repurchase the securities at their accreted value on May 7 of 2006, 2011 and 2016. (Holders also had the option to require us to repurchase the securities on May 7, 2004, but no holders exercised this option.) If the holders exercise this option in the future, we may choose to pay the purchase price for such repurchases with cash, shares of our common stock or some combination thereof. We may redeem the securities for cash on or after May 7, 2006 at their accreted value. In 2003, we repurchased \$116.5 million principal amount at maturity of these notes in privately negotiated transactions.

2001 Mandatory Convertible Securities

In December 2001, we completed a public offering of mandatory convertible securities ("2001 PRIDES"). A sale of an over-allotment of the securities was completed in January 2002, increasing the aggregate amount outstanding to \$230 million. Each unit of the 2001 PRIDES initially consisted of (i) a senior note due November 17, 2006 with a principal amount of \$25 per note, on which we pay interest quarterly at the annual rate of 6%, and (ii) a forward purchase contract pursuant to which the holder has agreed to purchase shares of our common stock on November 17, 2004, with the number of shares to be determined based upon the average trading price of our common stock for a period preceding that date. Depending on the average trading price in that period, the settlement rate will range from 0.4461 to 0.5130 shares per \$25 senior note. Based on the trading price of our common stock on June 30, 2004, the purchase contracts would have a settlement rate of 0.4963.

In August 2004, we repurchased approximately \$51 million aggregate principal amount of the senior notes, which notes were cancelled, in a tender offer. The related forward purchase contracts are now collateralized with treasuries (in lieu of senior notes) that were purchased on behalf of the tendering holders with tender offer proceeds. Any senior notes not tendered continue to be pledged to us to collateralize the holder's respective obligations under the forward purchase contracts, and remain subject to the terms of the remarketing described below.

In November 2004, we will receive \$230 million in proceeds upon settlement of the forward purchase contracts and, at such time, issue a number of shares of our common stock to holders of the senior notes based on the settlement rate, as discussed above. In August 2004 (and then in November 2004, if not successful in August), the approximately \$179 million aggregate principal amount of remaining senior notes will be subject to a remarketing (unless holders undertake certain specified actions) under the terms of the 2001 PRIDES. Assuming a successful remarketing, the outstanding senior notes (other than any senior notes repurchased by us from time to time) will have a maturity date of November 2006.

Floating Rate Senior Convertible Securities

In February 2003, we completed a private placement of an aggregate of \$300 million of floating rate senior convertible securities. These securities bear interest at a rate equal to 3-month LIBOR minus 0.50%, payable in cash quarterly. Each \$1,000 floating rate senior convertible security is convertible into shares of our common stock upon the occurrence of certain events, including the following: (i) if the closing price of our common stock exceeds \$65.00 per share over certain periods; (ii) if the credit rating assigned to us by Standard & Poor's is below BB-; or (iii) if we call the securities for redemption. Upon conversion, the initial settlement rate will be 18.462 shares of our common stock for each \$1,000 floating rate senior convertible security. In addition, if the market price of our common stock exceeds \$54.17 per share at the time of conversion, holders will receive additional shares of our common stock based on the price of our common stock at that time. Based on the trading price of our common stock as of June 30, 2004, each security would have a settlement rate of 18.462 shares. The holders of the securities may require us to repurchase these securities on February 25 of 2008, 2013, 2018, 2023 and 2028, at their principal amount. We may choose to pay the purchase price for such repurchases with cash, shares of our common stock or some combination thereof. We have the option to redeem the securities for cash at any time on or after February 25, 2008 at their principal amount.

The floating rate senior convertible securities are considered contingent payment debt instruments under federal income tax regulations. These regulations require us to deduct interest expense at the rate at which we would issue a non-contingent, non-convertible, fixed-rate debt instrument. When this implied interest rate for tax purposes is greater than our projected interest payments on these securities, a deferred tax expense is generated. These securities are projected to generate an average of approximately \$4.0 million of deferred taxes annually until we redeem the securities or they convert. While these deferred tax liabilities may never reverse, such liabilities will reverse if we redeem the securities on February 25, 2008 or later and if our common stock is trading at \$54.17 per share or less on the date of redemption. All deferred taxes related to the securities will be reclassified to equity if the securities convert and our common stock is trading at more than \$60.90 per share when it is delivered to holders.

2004 Mandatory Convertible Securities

In February 2004, we completed a private placement of \$300 million of mandatory convertible securities ("2004 PRIDES"). As described below, these securities are also structured to provide \$300 million of additional proceeds to us following a successful remarketing and the exercise of forward purchase contracts in February 2008.

Each unit of the 2004 PRIDES initially consists of (i) a senior note due February 17, 2010 with a principal amount of \$1,000 per note, on which we pay interest quarterly at the annual rate of 4.125%, and (ii) a forward purchase contract pursuant to which the holder has agreed to purchase shares of our common stock on February 17, 2008. Holders of the purchase contracts will receive a quarterly contract adjustment payment at the annual rate of 2.525% per \$1,000 contract. The current portion of the contract adjustment payments, approximately \$6 million, is recorded in current liabilities. The number of shares to be issued on February 17, 2008 will be determined based upon the average trading price of our common stock for a period preceding that date. Depending on the average trading price in that period, the settlement rate will range from 11.7851 to 18.0311 shares per \$1,000 senior note. Based on the trading price of our common stock as of June 30, 2004, the purchase contracts would have a settlement rate of 18.0311.

Each of the senior notes is pledged to us to collateralize the holder's obligations under the forward purchase contracts. Beginning in August 2007, under the terms of the 2004 PRIDES, the senior notes are expected to be remarketed to new investors. A successful remarketing will generate \$300 million of

proceeds to be used by the original holders of the 2004 PRIDES to honor their obligations on the forward purchase contracts. In exchange for the additional \$300 million in payment on the forward purchase contracts, we will issue shares of our common stock to the original holders of the senior notes. As referenced above, the number of shares of common stock to be issued will be determined by the market price of our common stock at that time. Assuming a successful remarketing, the senior notes will remain outstanding until at least February 2010.

In connection with our 2004 PRIDES private placement, we repurchased an aggregate of approximately 3.5 million shares of our common stock through June 30, 2004. The share repurchases are intended to offset our obligation to issue shares of our common stock in November 2004 under the terms of the forward purchase contracts of our 2001 PRIDES.

Purchases of Affiliate Equity

Our Affiliate operating agreements provide our Affiliate managers the conditional right to require us to purchase their retained equity interests at certain intervals. The agreements also provide us the conditional right to require Affiliate managers to sell their retained equity interests upon their death, permanent incapacity or termination of employment and provide Affiliate managers the conditional right to require us to purchase such retained equity interests upon the occurrence of such events. These purchases will occur at varying times and in varying amounts over a period of approximately 15 years; however, the actual timing and amounts of such purchases generally cannot be predicted with any certainty. These purchases are generally calculated based upon a multiple of the Affiliate's cash flow distributions, which is intended to represent fair value. As one measure of the potential magnitude of such purchases, in the event that a triggering event and resulting purchase occurred with respect to all such retained equity interests as of June 30, 2004, the aggregate amount of these payments would have totaled approximately \$712.9 million. In the event that all such transactions were closed, we would own the prospective cash flow distributions of all equity interests that would be purchased from our Affiliate managers. As of June 30, 2004, this amount would represent approximately \$99.0 million on an annualized basis. We pay for these purchases in cash, shares of our common stock or other forms of consideration. With our approval, Affiliate managers are also permitted to sell their equity interests to other individuals or entities. These potential purchases, combined with our other cash needs, may require more cash than is available from operations, and therefore, we may need to raise capital by making borrowings under our Facility, by selling shares of our common stock or other equity or debt securities, or to otherwise refinance a portion of these purchases.

Operating Cash Flow

Cash flow from operations generally represents net income plus non-cash charges for amortization, deferred taxes and depreciation, as well as the changes in our consolidated working capital. The increase in cash flow from operations in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, resulted principally from the growth in revenue and earnings in the six months ended June 30, 2004 as compared to the same period in 2003. This increase was also attributable to tax benefits realized from the exercise of stock options during the six months ended June 30, 2004.

Supplemental Liquidity Measure

As supplemental information in this Quarterly Report on Form 10-Q, we have provided information regarding our EBITDA, a non-GAAP liquidity measure. This measure is provided in addition to, but not as a substitute for, cash flow from operations. EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies. As a measure of liquidity, we believe that EBITDA is useful as an indicator of our ability to service debt, make new investments and meet

working capital requirements. We further believe that many investors use this information when analyzing the financial position of companies in the investment management industry.

The following table provides a reconciliation of cash flow from operations to EBITDA:

<i>(dollars in millions)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Cash flow from operations	\$ 35.8	\$ 65.6	\$ 33.7	\$ 77.4
Interest expense, net of non-cash items	5.0	7.5	9.6	13.8
Current tax provision	1.7	5.6	3.7	10.2
Changes in assets and liabilities and other adjustments	(7.8)	(32.6)	20.3	(11.5)
EBITDA	\$ 34.7	\$ 46.1	\$ 67.3	\$ 89.9

Investing Cash Flow

Changes in net cash flow from investing activities primarily result from our investments in new and existing Affiliates. We closed our investment in Genesis on June 17, 2004, which was funded from available cash. Net cash flow used to make investments in Affiliates was \$6.1 million and \$80.1 million for the six months ended June 30, 2003 and 2004, respectively, reflecting our investment in Genesis and our payments to acquire interests in existing Affiliates.

Financing Cash Flow

Cash flows from financing activities decreased in the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, as a result of increased repurchase activity in the six months ended June 30, 2004. In the six months ended June 30, 2003, we repurchased a portion of our outstanding zero coupon senior convertible notes for \$105.8 million and common stock for \$33.7 million. In the six months ended June 30, 2004, we repurchased approximately 3.5 million shares of our common stock for \$194.4 million, or an average price of \$55.73 per share. These shares were purchased under share repurchase programs authorized by our Board of Directors; approximately 3.0 million shares remain authorized for repurchase as of June 30, 2004.

During the six months ended June 30, 2004, our principal source of cash from financing activities was the \$300 million issuance of our 2004 PRIDES, while during the same period in 2003, our principal source of cash from financing activities was the \$300 million issuance of floating rate senior convertible securities.

Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2004:

Contractual Obligations	Total	Payments Due			
		Remainder of 2004	2005-2006	2007-2008	Thereafter
Long-term debt ⁽¹⁾	\$ 953.6	\$ —	\$ 230.0	\$ —	\$ 723.6
Purchases of Affiliate equity ⁽²⁾	712.9	99.6	142.8	202.5	268.0
Leases	60.9	6.2	21.0	14.3	19.4
Other liabilities ⁽³⁾	18.4	1.8	11.8	4.8	—
Total	\$ 1,745.8	\$ 107.6	\$ 405.6	\$ 221.6	\$ 1,011.0

- (1) Long-term debt reflects the principal payments on the zero coupon senior convertible notes and floating rate senior convertible securities, as well as the mandatory convertible securities. As more fully discussed on page 27, consistent with industry practice, we do not consider our mandatory convertible securities as debt for the purpose of determining our leverage ratio. Under the terms of our mandatory convertible securities, the exercise of the forward purchase contract component at the respective settlement dates will result in the issuance of shares of our common stock and will generate cash proceeds to amortize debt in an amount equal to the remaining note portion of each security. In August 2004, we repurchased \$51.0 million aggregate principal amount of the outstanding \$230.0 million senior note component of our 2001 PRIDES. In November 2004, we will receive \$230.0 million in proceeds upon the settlement of the forward purchase contracts.
- (2) Purchases of Affiliate equity reflect estimates of our conditional purchases of additional equity in our Affiliates and assume that all conditions to such purchases are met and that such purchases will all be effected on the date that they are first exercisable. As described previously, these purchases could occur in varying amounts over the next 15 years; however, the actual timing and amounts of such purchases generally cannot be predicted with any certainty. Additionally, in many instances we have the discretion to settle these purchases with our common stock and in all cases can consent to the sale of these interests to other individuals or entities. As one measure of the potential magnitude of such purchases, assuming that all such purchases had been effected as of June 30, 2004, the aggregate purchase amount would have totaled approximately \$712.9 million. Assuming the closing of such additional purchases, we would own the prospective cash flow distributions associated with all additional equity so purchased, estimated to be approximately \$99.0 million on an annualized basis as of June 30, 2004. We have provided notice of our intention to exercise our option to purchase a 19% interest in our Affiliate, Friess Associates, LLC. This purchase is expected to close in October 2004 and represents the substantial majority of Affiliate equity purchases for the remainder of fiscal 2004.
- (3) Other liabilities reflect notes payable to Affiliate managers that were issued in connection with our purchase of additional Affiliate equity interests.

Recent Accounting Developments

In March 2004, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus on Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings per Share" ("EITF 03-6"). EITF 03-6 addresses the computation of earnings per share by companies that have issued securities other than common stock, such as forward purchase contracts, which contractually entitle the holder to participate in dividends. EITF 03-6 is effective for reporting periods ending after March 31, 2004. As EITF 03-6 does not apply to variable share forward purchase contracts (which are the type of forward purchase contracts contained in our 2001 PRIDES and 2004 PRIDES), EITF 03-6 is not applicable to us.

In July 2004, the EITF released for public comment Issue 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect of Diluted Earnings per Share" ("EITF 04-8"). As described in Note 3, our zero coupon senior convertible securities and floating rate senior convertible securities are contingently convertible securities.

Under current accounting principles (discussed further in Note 7 to our Consolidated Financial Statements), shares of common stock that may be issued under the terms of the contingently

convertible debt securities are excluded from earnings per share calculations until (among other factors) the trading price of our common stock exceeds a defined threshold. If adopted, EITF 04-8 would require these potentially issuable shares to be included in earnings per share calculations (using the "if-converted" method) even if this threshold has not been met. As of June 30, 2004, the stock price conversion threshold was \$62.50 for the zero coupon senior convertible securities and \$65.00 for the floating rate senior convertible securities; the closing price of our common stock on that date was \$50.37.

Following a public comment period, the EITF is scheduled to further discuss EITF 04-8 at its meetings on September 29 and 30, 2004. If approved in its current form, EITF 04-8 would then be reviewed by the FASB. While it is not clear whether the EITF or FASB will approve this standard, if EITF 04-8 is approved, it may become effective as early as the fourth quarter of 2004 and potentially require the restatement of prior reporting results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We periodically use interest rate derivative contracts to manage market exposures associated with our variable rate debt by creating offsetting market exposures. During May 2004, we became a party to \$50 million notional amount of interest rate swap contracts, and we may enter into other such contracts, or engage in similar hedging activities, in the future. There can be no assurance that the amount of coverage maintained would cover all of our variable rate debt outstanding at any given time. Moreover, there can be no assurance that the derivative contracts would meet their overall objective of reducing our interest expense.

Through our Affiliates, we operate primarily in the United States, but also provide investment management services and earn revenue in various other countries and jurisdictions. A significant portion of this revenue is denominated in U.S. dollars and, therefore, our exposure to foreign currency fluctuations in our revenue is not material at this time.

Item 4. Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2004, our disclosure controls and procedures are, to the best of their knowledge, effectively designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. We continue to review and document our disclosure controls and procedures and may from time to time make changes aimed at enhancing their effectiveness and ensuring that our systems evolve with our business.

There was no significant change in our internal control over financial reporting that occurred during the quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Period ⁽¹⁾	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1—April 30, 2004	—	—	—	3,025,203
May 1—May 31, 2004	—	—	—	3,025,203
June 1—June 30, 2004	—	—	—	3,025,203
Total	—	—	—	3,025,203

- (1) (A) In February 2004, our Board of Directors announced share repurchase programs in connection with the issuance of the Company's 2004 PRIDES, pursuant to which the Company was authorized to repurchase up to (i) 3.0 million shares of common stock at the time of the closing of the 2004 PRIDES and (ii) an additional 1.5 million shares of common stock over a twelve-month period following such issuance.
- (B) In April 2003, our Board of Directors announced a share repurchase program permitting the Company to repurchase up to 5% of its issued and outstanding shares of common stock.
- (C) In April 2000, our Board of Directors announced a share repurchase program permitting the Company to repurchase up to 5% of its issued and outstanding shares of common stock. In July 2002, the Board of Directors announced an increase to this program, which permitted the repurchase of up to an additional 5% of the Company's issued and outstanding shares of common stock.

Item 3. Defaults Upon Senior Securities

None.

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

At our Annual Meeting of Stockholders on June 8, 2004, our stockholders elected the following individuals (each by the vote reflected below) to serve as directors until the 2005 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified:

Director	Shares Voted For	Shares Withheld
William J. Nutt	25,746,436	1,042,756
Sean M. Healey	25,655,510	1,133,682
Richard E. Floor	15,303,281	11,485,911
Stephen J. Lockwood	25,198,976	1,590,216
Harold J. Meyerman	25,198,931	1,590,261
Robert C. Puff, Jr.	26,570,018	219,174
Rita M. Rodriguez	25,644,315	1,144,877

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

- (a) The Exhibit Index attached hereto is incorporated by reference herein.
- (b) Reports on Form 8-K:

We filed the following Current Reports on Form 8-K during the quarter ended June 30, 2004:

- (1) On April 28, 2004, we furnished a Current Report on Form 8-K under Item 12 containing a copy of our press release announcing our financial and operating results for the period ended March 31, 2004.
- (2) On April 29, 2004, we furnished a Current Report on Form 8-K under Item 5 regarding the completion of our previously announced three-for-two stock split of our outstanding shares of common stock, in the form of a stock dividend of one half share of common stock for every one outstanding share of common stock owned by stockholders of record on February 24, 2004 and each share held in the treasury of the Company as of such record date. As a result of the stock split, the Company's common stock began trading on a split-adjusted basis at the opening of the market on March 30, 2004. The stock split also resulted in the reservation of additional shares of common stock as a result of adjustments required by the terms of the Company's outstanding convertible securities and option plans, including shares previously registered by the Company on Form S-8 and Form S-3.

SIGNATURES

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

AFFILIATED MANAGERS GROUP, INC.
(Registrant)

August 9, 2004

/s/ DARRELL W. CRATE

Darrell W. Crate
on behalf of the Registrant as Executive Vice President, Chief Financial Officer
and Treasurer (and also as Principal Financial and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Registrant's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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[AFFILIATED MANAGERS GROUP, INC. CONSOLIDATED BALANCE SHEETS \(in thousands\) \(unaudited\)](#)

[AFFILIATED MANAGERS GROUP, INC. CONSOLIDATED STATEMENTS OF INCOME \(dollars in thousands, except per share data\) \(unaudited\)](#)

[AFFILIATED MANAGERS GROUP, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS \(in thousands\) \(unaudited\)](#)

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CERTIFICATION

I, William J. Nutt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Affiliated Managers Group, Inc.;
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)) 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) 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
 - (c) 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 fiscal 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: August 9, 2004

/s/ WILLIAM J. NUTT

Name: William J. Nutt
Title: Chairman and Chief Executive Officer

QuickLinks

[Exhibit 31.1](#)

CERTIFICATION

I, Darrell W. Crate, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Affiliated Managers Group, Inc.;
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)) 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) 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
 - (c) 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 fiscal 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: August 9, 2004

/s/ DARRELL W. CRATE

Name: Darrell W. Crate
Title: Executive Vice President,
Chief Financial Officer and Treasurer

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[Exhibit 31.2](#)

CERTIFICATION

The undersigned officers of Affiliated Managers Group, Inc. (the "Company") hereby certify that the Company's quarterly report on Form 10-Q to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 9, 2004

By: /s/ WILLIAM J. NUTT

Name: William J. Nutt
Title: Chairman and Chief Executive Officer

By: /s/ DARRELL W. CRATE

Name: Darrell W. Crate
Title: Executive Vice President, Chief Financial
Officer and Treasurer

This certification shall not be deemed "filed" for any purpose, nor shall it be deemed incorporated by reference into any filing, under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. A signed original of this certification 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.

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[Exhibit 32.1](#)

[CERTIFICATION](#)