# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2005**

**OR**

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

**For the transition period from to**

**Commission File Number 001-13459**

# Affiliated Managers Group, Inc.

(Exact name of registrant as specified in its charter)

| **Delaware** | **04-3218510** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

**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 x No o

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

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

There were 33,948,496 shares of the registrant's common stock outstanding as of November 4, 2005.

## PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements**

**AFFILIATED MANAGERS GROUP, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands)**

**(unaudited)**

| | December 31, 2004 | September 30, 2005 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 140,277 | $ 139,235 |
| Short-term investments | 21,173 | — |
| Investment advisory fees receivable | 91,487 | 136,222 |
| Prepaid expenses and other current assets | 24,795 | 30,094 |
| Total current assets | 277,732 | 305,551 |
| Fixed assets, net | 40,953 | 47,146 |
| Equity investment in Affiliates | 252,597 | 297,887 |
| Acquired client relationships, net | 440,409 | 488,699 |
| Goodwill | 888,567 | 1,082,313 |
| Other assets | 33,163 | 42,424 |
| Total assets | $ 1,933,421 | $ 2,264,020 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |

| | | |
|---|---|---|
| Accounts payable and accrued liabilities | $ 114,350 | $ 177,148 |
| Payables to related party | 17,728 | 12,203 |
| Total current liabilities | 132,078 | 189,351 |
| Senior debt | 126,750 | 256,750 |
| Senior convertible debt | 423,958 | 424,417 |
| Mandatory convertible securities | 300,000 | 300,000 |
| Deferred income taxes | 124,168 | 173,988 |
| Other long-term liabilities | 31,397 | 21,325 |
| Total liabilities | 1,138,351 | 1,365,831 |
| Commitments and contingencies (Note 7) | — | — |
| Minority interest | 87,378 | 87,552 |
| Stockholders' equity: | | |
| Common stock | 387 | 390 |
| Additional paid-in capital | 566,776 | 589,818 |
| Accumulated other comprehensive income | 1,537 | 16,388 |
| Retained earnings | 384,119 | 464,424 |
| | 952,819 | 1,071,020 |
| Less: treasury stock, at cost | (245,127) | (260,383) |
| Total stockholders' equity | 707,692 | 810,637 |
| Total liabilities and stockholders' equity | $ 1,933,421 | $ 2,264,020 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 |
| Revenue | $ 165,846 | $ 234,126 | $ 476,042 | $ 643,995 |
| Operating expenses: | | | | |
| Compensation and related expenses | 61,296 | 95,474 | 176,178 | 259,545 |
| Selling, general and administrative | 28,440 | 44,009 | 77,086 | 115,285 |
| Amortization of intangible assets | 4,950 | 6,525 | 13,214 | 17,998 |
| Depreciation and other amortization | 1,587 | 2,035 | 4,746 | 5,052 |
| Other operating expenses | 5,176 | 5,314 | 12,349 | 15,071 |
| | 101,449 | 153,357 | 283,573 | 412,951 |
| Operating income | 64,397 | 80,769 | 192,469 | 231,044 |
| Non-operating (income) and expenses: | | | | |
| Investment and other (income) loss | 1,387 | (7,175) | (2,195) | (16,199) |
| Interest expense | 8,193 | 10,071 | 24,318 | 26,682 |
| | 9,580 | 2,896 | 22,123 | 10,483 |
| Income before minority interest and taxes | 54,817 | 77,873 | 170,346 | 220,561 |
| Minority interest | (26,819) | (32,619) | (80,017) | (92,439) |
| Income before income taxes | 27,998 | 45,254 | 90,329 | 128,122 |
| Income taxes—current | 3,240 | 8,762 | 13,413 | 23,900 |
| Income taxes—intangible-related deferred | 6,441 | 7,058 | 18,684 | 21,918 |
| Income taxes—other deferred | 1,518 | 924 | 4,343 | 1,999 |
| Net Income | $ 16,799 | $ 28,510 | $ 53,889 | $ 80,305 |
| Average shares outstanding—basic | 29,353,068 | 33,926,047 | 29,551,383 | 33,611,937 |
| Average shares outstanding—diluted | 38,481,044 | 44,908,036 | 38,929,062 | 44,465,513 |
| Earnings per share—basic | $ 0.57 | $ 0.84 | $ 1.82 | $ 2.39 |
| Earnings per share—diluted | $ 0.46 | $ 0.67 | $ 1.44 | $ 1.91 |
| Supplemental disclosure of total comprehensive income: | | | | |
| Net Income | $ 16,799 | $ 28,510 | $ 53,889 | $ 80,305 |
| Other comprehensive income (loss) | (74) | 15,003 | 745 | 14,851 |
| Total comprehensive income | $ 16,725 | $ 43,513 | $ 54,634 | $ 95,156 |

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

**AFFILIATED MANAGERS GROUP, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(unaudited)**

| | For the Three Months Ended September 30, 2004 | For the Three Months Ended September 30, 2005 | For the Nine Months Ended September 30, 2004 | For the Nine Months Ended September 30, 2005 |
|---|---|---|---|---|
| **Cash flow from operating activities:** | | | | |
| Net Income | $ 16,799 | $ 28,510 | $ 53,889 | $ 80,305 |
| Adjustments to reconcile Net Income to net cash flow from operating activities: | | | | |
| Amortization of intangible assets | 4,950 | 6,525 | 13,214 | 17,998 |
| Amortization of debt issuance costs | 1,020 | 765 | 2,852 | 2,275 |
| Depreciation and other amortization | 1,587 | 2,035 | 4,746 | 5,052 |
| Deferred income tax provision | 7,959 | 7,982 | 23,027 | 23,917 |
| Accretion of interest | 344 | 474 | 825 | 1,422 |
| Income from equity method investments, net of amortization | — | (4,244) | — | (10,249) |
| Distributions received from equity method investments | — | 4,251 | — | 10,476 |
| Tax benefit from exercise of stock options | 16 | 5,362 | 5,525 | 11,103 |
| Other adjustments | 2,493 | (1,384) | 2,493 | (2,253) |
| Changes in assets and liabilities: | | | | |
| Increase in investment advisory fees receivable | (9,109) | (11,622) | (23,716) | (31,972) |
| (Increase) decrease in other current assets | (18) | 4,195 | 6,847 | 4,058 |
| Increase in non-current other receivables | (4,127) | (2,144) | (599) | (1,897) |
| Increase in accounts payable, accrued expenses and other liabilities | 15,121 | 21,873 | 17,933 | 25,699 |
| Increase in minority interest | 14,098 | 12,701 | 21,499 | 648 |
| Cash flow from operating activities | 51,133 | 75,279 | 128,535 | 136,582 |
| **Cash flow used in investing activities:** | | | | |
| Costs of investments in Affiliates, net of cash acquired | (2,112) | (62,375) | (82,178) | (80,766) |
| Purchase of fixed assets | (2,966) | (4,112) | (6,485) | (9,101) |
| Purchase of investment securities | (2,200) | — | (12,450) | (6,393) |
| Sale of investment securities | 2,000 | — | 2,658 | 24,062 |
| Increase in other assets | — | — | (57) | — |
| Cash flow used in investing activities | (5,278) | (66,487) | (98,512) | (72,198) |
| **Cash flow from (used in) financing activities:** | | | | |
| Borrowings of senior bank debt | 51,000 | 170,000 | 51,000 | 175,000 |
| Repayments of senior bank debt | — | (30,000) | — | (35,000) |
| Repayment of debt assumed from new investment | — | (150,811) | — | (150,811) |
| Issuance of convertible securities | — | — | 300,000 | — |
| Repurchase of convertible securities | (124,525) | — | (124,525) | — |
| Repurchase of senior debt securities | — | — | — | (10,000) |
| Issuance of common stock | 145 | 10,232 | 11,559 | 24,257 |
| Repurchase of common stock | — | (39,521) | (194,420) | (39,521) |
| Settlement of forward equity sale agreement | — | — | — | (14,008) |
| Issuance costs | (2,521) | (28) | (12,365) | (651) |
| Repayments of notes payable and other liabilities | — | (2,201) | (7,041) | (15,486) |
| Cash flow from (used in) financing activities | (75,901) | (42,329) | 24,208 | (66,220) |
| Effect of foreign exchange rate changes on cash flow | 41 | 1,424 | 102 | 794 |
| Net increase (decrease) in cash and cash equivalents | (30,005) | (32,113) | 54,333 | (1,042) |
| Cash and cash equivalents at beginning of period | 308,620 | 171,348 | 224,282 | 140,277 |
| **Cash and cash equivalents at end of period** | $ 278,615 | $ 139,235 | $ 278,615 | $ 139,235 |
| **Supplemental disclosure of non-cash financing activities:** | | | | |
| Notes received for Affiliate equity sales | $ — | $ 2,589 | $ — | $ 5,627 |
| Payables recorded for Affiliate equity purchases | — | 767 | — | 4,243 |
| Stock issued in new investment | — | 24,556 | — | 24,556 |
| Stock issued in settlement of indebtedness | 28,499 | — | 28,499 | — |
| Gain realized from settlement of forward purchase contracts | 3,719 | — | 3,719 | — |
| Debt assumed from new investment | — | 150,811 | — | 150,811 |

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



**AFFILIATED MANAGERS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Basis of Presentation

The consolidated financial statements of Affiliated Managers Group, Inc. (“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. Certain reclassifications have been made to the prior period’s financial statements to conform to the current period’s presentation, including the classification of auction rate securities as available-for-sale securities, which are reported as short-term investments instead of cash equivalents. These reclassifications had no impact on our results of operations or changes in stockholders’ equity. 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, 2004 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. Senior Debt

The components of senior debt are as follows:

| | December 31, 2004 | September 30, 2005 |
|---|---|---|
| Senior revolving credit facility | $ 51,000 | $ 191,000 |
| Senior notes due 2006 | 75,750 | 65,750 |
| | $ 126,750 | $ 256,750 |

### *Senior Revolving Credit Facility*

The Company has a senior revolving credit facility ("Facility") with a syndicate of major commercial banks under which the Company may borrow up to $405,000 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, that is scheduled to mature in August 2007. Subject to the agreement of the lenders (or prospective lenders) to increase their commitments, the Company has the option to increase the Facility up to an aggregate of $450,000. 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. Borrowings under the Facility are collateralized by pledges of all capital stock or other equity interests owned by the Company.

The Company expects to close an amended and restated credit facility in the quarter ending December 31, 2005. It is expected that the new facility will contain terms substantially similar to the existing Facility and will increase borrowing capacity at more favorable interest rates.



### *Senior Notes due 2006*

In December 2001, the Company issued $230,000 of mandatory convertible securities ("2001 PRIDES"). 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, and (ii) a forward purchase contract pursuant to which the holder agreed to purchase shares of the Company's common stock on November 17, 2004, with the number of shares determined based upon the average trading price of the Company's common stock for a period preceding that date.

The Company repurchased $154,250 in aggregate principal amount of the senior notes component of the 2001 PRIDES ("Senior Notes due 2006") and settled the forward purchase contracts in 2004. During the second quarter of 2005, the Company repurchased $10,000 of the Senior Notes due 2006; the remaining $65,750 matures in November 2006 and has an interest rate of 5.406%.

## 3. Senior Convertible Debt

| | December 31, 2004 | September 30, 2005 |
|---|---|---|
| Zero coupon senior convertible notes | $ 123,958 | $ 124,417 |
| Floating rate senior convertible securities | 300,000 | 300,000 |
| | $ 423,958 | $ 424,417 |

### *Zero Coupon Senior Convertible Notes*

In May 2001, the Company issued $251,000 of principal amount at maturity of zero coupon senior convertible notes due 2021 ("zero coupon convertible notes"), with each note issued at 90.50% of such principal amount and accreting at a rate of 0.50% per year. Following the Company's 2003 repurchase of $116,500 principal amount of such notes, $134,500 principal amount at maturity of zero coupon convertible notes remains outstanding. Each security is convertible into 17.429 shares of the Company's common stock (at a current base conversion price of $53.01) upon the occurrence of certain events, including the following: (i) if the closing price of a share of its 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 in April 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 in May 2006, 2011 and 2016. 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. Under the terms of the indenture governing the zero coupon convertible notes, a holder may convert such security into common stock by following the conversion procedures in the indenture; subject to changes in the price of the Company's common stock, the zero coupon convertible notes may cease to be convertible into common stock in the future.

### *Floating Rate Senior Convertible Securities*

In February 2003, the Company issued $300,000 of floating rate senior convertible securities due 2033 ("floating rate convertible securities"). The floating rate 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 (at a base conversion price of $54.17) 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 the base conversion price 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 as of September 30, 2005, upon conversion a holder of each security would receive an additional 2.835 shares. The holders of the floating rate convertible securities may require the Company to repurchase such securities in February 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. Under the terms of the indenture governing the floating rate convertible securities, a holder may convert such security into common stock by following the conversion procedures in the indenture; subject to changes in the price of the Company's common stock, the floating rate convertible securities may cease to be convertible into common stock in the future.

The Company has entered into interest rate swap contracts that effectively exchange the variable interest rate for a fixed interest rate on $150,000 of the floating rate convertible securities. For the period through February 2008, the Company will pay a weighted average fixed rate of 3.3% on that notional amount.

### 4. Mandatory Convertible Securities

In February 2004, the Company issued $300,000 of mandatory convertible securities ("2004 PRIDES"). As described below, these securities are 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 consists of (i) a senior note due February 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 in February 2008. Holders of the purchase contracts receive a quarterly contract adjustment payment at the annual rate of 2.525% per $1,000 purchase contract. The current portion of the contract adjustment payments, approximately $6,762, is recorded in current liabilities. The number of shares to be issued in February 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 11.785 to 18.031 shares per $1,000 purchase contract. Based on the trading price of the Company's common stock as of September 30, 2005, the purchase contracts would have a settlement rate of 13.808.

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 gross proceeds to be used by the original holders of the 2004 PRIDES to fulfill 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.



### 5. Income Taxes

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

| | For the Three Months Ended September 30, 2004 | For the Three Months Ended September 30, 2005 | For the Nine Months Ended September 30, 2004 | For the Nine Months Ended September 30, 2005 |
|---|---|---|---|---|
| Current: | | | | |
| Federal | $ 2,835 | $ 5,807 | $ 11,739 | $ 19,927 |
| State | 405 | 332 | 1,674 | 1,350 |
| Foreign | — | 2,623 | — | 2,623 |
| Total Current | $ 3,240 | $ 8,762 | $ 13,413 | $ 23,900 |
| Deferred: | | | | |
| Federal | $ 6,964 | $ 7,871 | $ 20,148 | $ 22,548 |
| State | 995 | 450 | 2,879 | 1,708 |
| Foreign | — | (339) | — | (339) |
| Total Deferred | $ 7,959 | $ 7,982 | $ 23,027 | $ 23,917 |
| Provision for Income Taxes | $ 11,199 | $ 16,744 | $ 36,440 | $ 47,817 |

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

| | December 31, 2004 | September 30, 2005 |
|---|---|---|
| Deferred assets (liabilities): | | |
| State net operating loss and credit carryforwards | $ 10,362 | $ 12,296 |
| Intangible asset amortization | (116,417) | (160,412) |
| Deferred compensation | 320 | 794 |
| Convertible securities interest | (8,704) | (11,888) |
| Accrued expenses | 608 | (2,487) |
| | (113,831) | (161,697) |
| Valuation allowance | (10,337) | (12,291) |
| Net deferred income taxes | $ (124,168) | $ (173,988) |

Deferred tax liabilities result primarily from the Company's income tax accounting for its intangible assets and convertible securities. The Company amortizes most of its intangible assets for tax purposes only, thereby reducing its tax basis below its carrying value for financial statement purposes and generating deferred taxes each reporting period. However, intangible assets associated with the Company's recent investment in First Asset are not deductible for tax purposes. Because certain of these assets (primarily definite-lived acquired client relationships) are amortized for book purposes, the Company recorded a deferred tax liability of $26,679 at closing that represents the tax effect of the future book amortization of these assets. The Company's floating rate convertible securities currently generate tax deductions that are higher than the interest expense recorded for financial statement purposes.

At September 30, 2005, the Company had state tax loss carryforwards that will expire over the next 15 years and state tax credit carryforwards that will expire over the next 10 years. The valuation allowances at December 31, 2004 and September 30, 2005 are related to the uncertainty of the realization of most of these loss and credit carryforwards, which is dependent upon the Company's generation of sufficient taxable income prior to their expiration. The change in the valuation allowance for the quarter ended September 30, 2005 is principally attributable to state tax operating losses during this period.



---

### 6. 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 is a reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share. Unlike all other dollar amounts in these Notes, the amounts in the numerator reconciliation are not presented in thousands.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 |
| **Numerator:** | | | | |
| Net Income | $ 16,799,000 | $ 28,510,000 | $ 53,889,000 | $ 80,305,000 |
| Interest expense on contingently convertible securities, net of taxes | 765,000 | 1,791,000 | 2,004,000 | 4,638,000 |
| Net Income, as adjusted | $ 17,564,000 | $ 30,301,000 | $ 55,893,000 | $ 84,943,000 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 |
| **Denominator:** | | | | |
| Average shares outstanding—basic | 29,353,068 | 33,926,047 | 29,551,383 | 33,611,937 |
| Effect of dilutive instruments: | | | | |
| Stock options | 1,217,143 | 2,281,999 | 1,440,059 | 2,180,591 |
| Forward equity sale agreement | — | — | — | 118,205 |
| Contingently convertible securities | 7,910,833 | 8,699,990 | 7,937,620 | 8,554,780 |
| Average shares outstanding—diluted | 38,481,044 | 44,908,036 | 38,929,062 | 44,465,513 |

The calculations of diluted earnings per share for the three and nine months ended September 30, 2004 and 2005 exclude the effect of any potential exercise of the forward purchase contract component of the 2001 PRIDES and 2004 PRIDES, as applicable, because the effect would have been anti-dilutive.

In April 2005, the Company net settled its forward equity sale agreement for approximately $14,000 in cash, which was recorded as a reduction to stockholders' equity. Prior to the net settlement of the forward equity sale agreement, the Company was required to use the treasury stock method to measure potentially issuable shares.

Also, as more fully discussed in Note 3, the Company had zero coupon convertible notes and floating rate convertible securities outstanding during the nine months ended September 30, 2004 and 2005. These notes are convertible into shares of the Company's common stock upon certain conditions. The aggregate number of shares of common stock that could be issued in the future to settle these securities are deemed outstanding for the purposes of the calculation of diluted earnings per share. This approach, referred to as the if-converted method, requires that such shares be deemed outstanding regardless of whether the notes are then contractually convertible into the Company's common stock. For this if-converted calculation, the interest expense (net of tax) attributable to these securities is added back to Net Income, reflecting the assumption that the securities have been converted.

### 7. Commitments and Contingencies

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 year.

### 8. Related Party Transactions

The Company periodically records amounts payable to Affiliate partners in connection with the purchase of additional Affiliate equity interests. The total amount due to Affiliate partners as of September 30, 2005 was $21,820, of which $12,203 is due within one year and reported as a current liability. The non-current amount of $9,617 is classified within the other long-term liabilities of the balance sheet.

### 9. Equity-Based Compensation Plans

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" encourages but does not require adoption of a fair value method for equity-based compensation arrangements. An entity may continue to apply Accounting Principles Board Opinion No. 25 ("APB 25") and related interpretations, 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-based compensation 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 September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 |
| Net Income—as reported | $ 16,799 | $ 28,510 | $ 53,889 | $ 80,305 |
| Less: Total stock-based employee compensation expense determined under fair value, net of tax | 5,547 | 138 | 6,496 | 372 |
| Net Income—FAS 123 pro forma | $ 11,252 | $ 28,372 | $ 47,393 | $ 79,933 |
| Earnings per share—basic—as reported | $ 0.57 | $ 0.84 | $ 1.82 | $ 2.39 |
| Earnings per share—basic—FAS 123 pro forma | 0.38 | 0.84 | 1.60 | 2.38 |
| Earnings per share—diluted—as reported | 0.46 | 0.67 | 1.44 | 1.91 |
| Earnings per share—diluted—FAS 123 pro forma | 0.31 | 0.67 | 1.27 | 1.90 |

## 10. Segment Information

Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"), establishes disclosure requirements relating to operating segments in annual and interim financial statements. Management has assessed the requirements of FAS 131 and determined that the Company operates in three business segments representing the Company's three principal distribution channels: Mutual Fund, Institutional and High Net Worth, each of which has different client relationships.



Revenue in the Mutual Fund distribution channel is earned from advisory and sub-advisory relationships with all domestically-registered investment products as well as non-institutional investment products that are registered abroad. 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.

During the third quarter of this year, the Company amended its definition of the Mutual Fund distribution channel in conjunction with its acquisition of First Asset Management Inc. ("First Asset"), which increased the number of investment products managed by its Affiliates that are registered abroad. As a result, certain reclassifications have been made to prior period financial results of the Company's operating segments to conform them to the amended definition. These reclassifications are not material to the financial results of any of the Company's operating segments.

Revenue earned from client relationships managed by Affiliates accounted for under the equity method is not consolidated with the Company's reported revenue but instead is included (net of operating expenses, including amortization) in "Investment and other income," and reported in the distribution channel in which the Affiliate operates. Income tax attributable to the profits of the Company's equity-method Affiliates is reported within the Company's consolidated income tax provision.

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 September 30, 2004 | | | |
|---|---|---|---|---|
| | Mutual Fund | Institutional | High Net Worth | Total |
| Revenue | $ 65,196 | $ 67,013 | $ 33,637 | $ 165,846 |
| Operating expenses: | | | | |
| Depreciation and amortization | 513 | 3,670 | 2,354 | 6,537 |
| Other operating expenses | 36,500 | 37,470 | 20,942 | 94,912 |
| | 37,013 | 41,140 | 23,296 | 101,449 |
| Operating income | 28,183 | 25,873 | 10,341 | 64,397 |
| Non-operating (income) and expenses: | | | | |
| Investment and other income | 577 | 613 | 197 | 1,387 |
| Interest expense | 3,537 | 3,132 | 1,524 | 8,193 |
| | 4,114 | 3,745 | 1,721 | 9,580 |
| Income before minority interest and income taxes | 24,069 | 22,128 | 8,620 | 54,817 |

| | | | | |
|---|---|---|---|---|
| Minority interest | (9,820) | (12,480) | (4,519) | (26,819) |
| Income before income taxes | 14,249 | 9,648 | 4,101 | 27,998 |
| Income taxes | 5,700 | 3,859 | 1,640 | 11,199 |
| Net Income | $ 8,549 | $ 5,789 | $ 2,461 | $ 16,799 |

| | For the Three Months Ended September 30, 2005 | | | |
|---|---|---|---|---|
| | Mutual Fund | Institutional | High Net Worth | Total |
| Revenue | $ 108,406 | $ 92,195 | $ 33,525 | $ 234,126 |
| Operating expenses: | | | | |
| Depreciation and amortization | 1,362 | 4,604 | 2,594 | 8,560 |
| Other operating expenses | 65,453 | 57,832 | 21,512 | 144,797 |
| | 66,815 | 62,436 | 24,106 | 153,357 |
| Operating income | 41,591 | 29,759 | 9,419 | 80,769 |
| Non-operating (income) and expenses: | | | | |
| Investment and other income | (1,690) | (4,793) | (692) | (7,175) |
| Interest expense | 4,674 | 4,089 | 1,308 | 10,071 |
| | 2,984 | (704) | 616 | 2,896 |
| Income before minority interest and income taxes | 38,607 | 30,463 | 8,803 | 77,873 |
| Minority interest | (14,095) | (14,151) | (4,373) | (32,619) |
| Income before income taxes | 24,512 | 16,312 | 4,430 | 45,254 |
| Income taxes | 9,068 | 6,036 | 1,640 | 16,744 |
| Net Income | $ 15,444 | $ 10,276 | $ 2,790 | $ 28,510 |



| | For the Nine Months Ended September 30, 2004 | | | |
|---|---|---|---|---|
| | Mutual Fund | Institutional | High Net Worth | Total |
| Revenue | $ 189,219 | $ 183,612 | $ 103,211 | $ 476,042 |
| Operating expenses: | | | | |
| Depreciation and amortization | 1,384 | 10,269 | 6,307 | 17,960 |
| Other operating expenses | 105,932 | 98,666 | 61,015 | 265,613 |
| | 107,316 | 108,935 | 67,322 | 283,573 |
| Operating income | 81,903 | 74,677 | 35,889 | 192,469 |
| Non-operating (income) and expenses: | | | | |
| Investment and other income | (1,510) | (171) | (514) | (2,195) |
| Interest expense | 10,404 | 8,923 | 4,991 | 24,318 |
| | 8,894 | 8,752 | 4,477 | 22,123 |
| Income before minority interest and income taxes | 73,009 | 65,925 | 31,412 | 170,346 |
| Minority interest | (28,766) | (35,710) | (15,541) | (80,017) |
| Income before income taxes | 44,243 | 30,215 | 15,871 | 90,329 |
| Income taxes | 17,851 | 12,179 | 6,410 | 36,440 |
| Net income | $ 26,392 | $ 18,036 | $ 9,461 | $ 53,889 |

| | For the Nine Months Ended September 30, 2005 | | | |
|---|---|---|---|---|
| | Mutual Fund | Institutional | High Net Worth | Total |
| Revenue | $ 286,956 | $ 263,140 | $ 93,899 | $ 643,995 |
| Operating expenses: | | | | |
| Depreciation and amortization | 2,631 | 13,055 | 7,364 | 23,050 |
| Other operating expenses | 172,473 | 158,033 | 59,395 | 389,901 |
| | 175,104 | 171,088 | 66,759 | 412,951 |
| Operating income | 111,852 | 92,052 | 27,140 | 231,044 |
| Non-operating (income) and expenses: | | | | |
| Investment and other income | (3,467) | (11,634) | (1,098) | (16,199) |
| Interest expense | 11,707 | 11,511 | 3,464 | 26,682 |
| | 8,240 | (123) | 2,366 | 10,483 |
| Income before minority interest and income taxes | 103,612 | 92,175 | 24,774 | 220,561 |
| Minority interest | (37,689) | (42,696) | (12,054) | (92,439) |
| Income before income taxes | 65,923 | 49,479 | 12,720 | 128,122 |
| Income taxes | 24,594 | 18,474 | 4,749 | 47,817 |
| Net income | $ 41,329 | $ 31,005 | $ 7,971 | $ 80,305 |

**Balance Sheet Information**

| | | | | |
|---|---|---|---|---|
| Total assets as of December 31, 2004 | $ 779,824 | $ 791,300 | $ 362,297 | $ 1,933,421 |
| Total assets as of September 30, 2005 | $ 869,904 | $ 1,060,372 | $ 333,744 | $ 2,264,020 |

**11. Acquisitions**

On July 28, 2005, the Company completed the acquisition of equity interests in six Canadian asset management firms: Foyston, Gordon & Payne Inc.; Beutel, Goodman & Company Ltd. ("Beutel"); Montrusco Bolton Investment Inc.; Deans Knight Capital Management Ltd. ("Deans Knight"); Triax Capital Corporation; and Covington Capital Corporation. The Company acquired these interests and certain other assets through the acquisition of 100% of the outstanding stock of First Asset, a



privately-held Canadian asset management company. As of the acquisition date, these six firms managed $24.7 billion through approximately 100 investment products, including Canadian, U.S. and international value and growth equity products, as well as balanced, fixed income, venture capital and structured products.

The consideration paid to acquire First Asset was principally cash (a portion of which was borrowed under the Facility), with the remainder issued in shares of the Company's common stock. In connection with the transaction, First Asset was renamed AMG Canada Corp.

The Company's investment in First Asset is accounted for under the purchase method of accounting. The results of operations have been included in the Company's Consolidated Financial Statements beginning on July 28, 2005, the closing date of the acquisition. (Supplemental pro forma information has not been provided as the acquisition of First Asset did not constitute a material business combination.) The following table summarizes the net assets acquired at their respective fair values. The Company's purchase price allocation for its First Asset investment remains subject to finalization, and amounts may, therefore, be revised in future periods.

| | |
|---|---|
| Tangible assets, net | $ 11,662 |
| Definite-lived acquired client relationships | 50,181 |
| Equity investment in Affiliates | 42,942 |
| Deferred income taxes | (26,679) |
| Deferred purchase price | (10,015) |
| Goodwill | 181,201 |
| Net assets acquired | $ 249,292 |

While the financial results of all other First Asset Affiliates are consolidated, Beutel and Deans Knight are accounted for using the equity method. In connection with the Company's investment in Beutel and Deans Knight, approximately $23,300 of acquired client relationships and $19,700 of goodwill have been classified within equity investment in Affiliates. As is consistent with the equity method of accounting, the Company has elected to record the financial results of Beutel one quarter in arrears to allow for the receipt of financial information.

The Company's operating agreements generally provide Affiliate management partners the conditional right to require the Company to purchase their retained equity interests at certain intervals. These agreements also provide the Company the conditional right to require Affiliate management partners to sell their retained equity interests upon their death, permanent incapacity or termination of employment and provide such partners the conditional right to require the Company to purchase such retained equity interests upon the occurrence of such events. The partners are also permitted to sell their equity interests to other individuals or entities in certain cases, subject to the Company's approval or other restrictions. 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 September 30, 2005, the aggregate amount of these payments would have totaled approximately $935,004. In the event that all such transactions were closed, the Company would own the cash flow distributions attributable to the additional equity interests purchased from Affiliate management partners. As of September 30, 2005, this amount would represent approximately $127,858 on an annualized basis.

In connection with the Company's investments in certain Affiliates, in the event specified financial targets are achieved at such Affiliates, the Company may be required to make additional payments of approximately $174,291 in total. Payments under these arrangements, if required, are not expected to



exceed $10,000 for the twelve-month period ended September 30, 2006. If these payments occur, they will be recorded as goodwill.

## 12. Goodwill and Acquired Client Relationships

The following table presents the change in goodwill associated with the Company's purchases of Affiliate equity interests during the nine months ended September 30, 2005. A substantial amount of the goodwill acquired and the entire amount of the foreign currency translation is associated with the Company's acquisition of First Asset. During the nine months ended September 30, 2005, the Company also acquired Fremont Investment Advisors and certain interests from Affiliate management. In this period, the Company also issued Affiliate equity interests to certain Affiliate employees. Most of the goodwill acquired during the nine months ended September 30, 2005 is not deductible for tax purposes.

| | Mutual Fund | Institutional | High Net Worth | Total |
|---|---|---|---|---|
| Balance, as of December 31, 2004 | $ 345,731 | $ 356,849 | $ 185,987 | $ 888,567 |
| Goodwill acquired, net | 92,739 | 72,819 | 17,944 | 183,502 |
| Foreign currency translation | 4,405 | 4,302 | 1,537 | 10,244 |
| Balance, as of September 30, 2005 | $ 442,875 | $ 433,970 | $ 205,468 | $ 1,082,313 |

The following table reflects the components of intangible assets of the Company's Affiliates that are consolidated as of December 31, 2004 and September 30, 2005:

| | December 31, 2004 | | September 30, 2005 | |
|---|---|---|---|---|
| | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | |

| | | | | |
|---|---|---|---|---|
| Acquired client relationships | $ 279,595 | $ 84,237 | $ 334,683 | $ 102,235 |
| Non-amortized intangible assets: | | | | |
| Acquired client relationships—mutual fund management contracts | 245,051 | — | 256,251 | — |
| Goodwill | 888,567 | — | 1,082,313 | — |

For the Company's Affiliates that are consolidated, definite-lived acquired client relationships are amortized using the straight-line method over a weighted average life of approximately 12 years. Amortization expense was $4,950 and $6,525 for the three months ended September 30, 2004 and 2005, respectively. The Company estimates that its consolidated amortization expense will be approximately $27,600 for the next 5 years, assuming no additional investments in new or existing Affiliates.

During the third quarter of 2005, the Company completed its annual impairment test for goodwill and determined that none of its goodwill was impaired as of September 30, 2005.

The definite-lived acquired client relationships attributable to the Company's equity method investments are amortized using the straight-line method over approximately 11 years. Amortization expense for these relationships was zero and $2,192 for the three months ended September 30, 2004 and 2005, respectively. The Company estimates that the amortization expense attributable to its current equity-method Affiliates will be approximately $9,160 per year through 2014.

In the nine months ended September 30, 2005, as a result of the issuance of Affiliate equity interests to certain Affiliate employees, the Company's Affiliate ownership percentage in those Affiliates decreased. Accordingly, in this period goodwill and acquired client relationships decreased by approximately $5,566.



### 13. Recent Accounting Developments

In December 2004, the Financial Accounting Standards Board ("FASB") revised SFAS No. 123 ("FAS 123(R)"), requiring the measurement of the cost of all employee share-based payments (including stock option awards) in financial statements using a fair-value based method. The Company is required to adopt FAS 123(R) in the first quarter of 2006. Although the Company continues to assess the impact of the adoption of FAS 123(R), the adoption is not expected to have a material impact on its Consolidated Statement of Income.

On June 29, 2005, the FASB ratified the Emerging Issues Task Force's ("EITF") consensus on EITF Issue No. 04-05 ("EITF 04-05"), which provides a new framework for addressing when a general partner in a limited partnership controls the partnership. While the Company continues to assess the impact of this consensus, certain of the Company's Affiliates may be required to consolidate certain investment partnerships in which they hold a general partnership interest. EITF 04-05 will apply immediately to any limited partnerships formed after June 29, 2005, other limited partnerships that modify their partnership agreements after June 29, 2005, and to all other limited partnerships beginning January 1, 2006. As a result of EITF 04-05, the Company may be required to consolidate certain Affiliate funds that are currently reported under the equity method of accounting. If these fund assets are consolidated, the Company's minority interest liability will increase in a corresponding amount. Management does not believe that the adoption of EITF 04-05 will have a material impact on the Company's stockholders' equity or results of operations.

### 14. Comprehensive Income

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 |
| Net Income | $ 16,799 | $ 28,510 | $ 53,889 | $ 80,305 |
| Foreign currency translation adjustment | 41 | 14,278 | 102 | 13,646 |
| Change in net unrealized gain on investment securities | 524 | 17 | 1,600 | 14 |
| Change in net unrealized loss on derivative securities | (639) | 708 | (639) | 1,801 |
| Reclassification of unrealized gain on investment securities to realized gain | — | — | (318) | (610) |
| Comprehensive income | $ 16,725 | $43,513 | $ 54,634 | $95,156 |

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

| | December 31, 2004 | September 30, 2005 |
|---|---|---|
| Unrealized gain on investment securities | $ 637 | $ 41 |
| Unrealized (loss) gain on derivative securities | (232) | 1,569 |
| Foreign currency translation adjustment | 1,132 | 14,778 |
| Accumulated other comprehensive income | $ 1,537 | $ 16,388 |

Foreign currency translation adjustments result primarily from the Company's translation of the financial statements of First Asset, which are denominated in Canadian dollars.



## 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 United States 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 global 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 our operating results and in the cash flow distributable to us from our Affiliates;*
- *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 any 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 common 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; and*
- *those certain other factors discussed under the caption "Business-Cautionary Statements" in our Annual Report on Form 10-K for the year ended December 31, 2004, 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 September 30, 2005, our affiliated investment management firms managed approximately $175 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 business 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 300 investment products across a broad range 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 100 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 150 investment products across more than 35 different investment styles in the Institutional distribution channel, including small, small/mid, mid and large capitalization value and growth equity and emerging markets. In addition, our Affiliates offer quantitative, alternative and fixed income 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 and wrap programs.

In 2004 and 2005, our investments in new and existing Affiliates included the following:

- In July 2005, we completed our investment in equity interests in six Canadian asset management firms: Foyston, Gordon & Payne Inc.; Beutel, Goodman & Company Ltd.; Montrusco Bolton Investment Inc.; Deans Knight Capital Management Ltd.; Triax Capital Corporation; and Covington Capital Corporation. We acquired these interests and certain other assets through the acquisition of First Asset Management Inc. ("First Asset"), a privately-held Canadian asset management company. These firms manage approximately 100 investment products, including Canadian, U.S. and international value and growth equity products, as well as balanced, fixed income, venture capital and structured products.
- In January 2005, through Managers Investment Group LLC, we completed our acquisition of certain assets under management from Fremont Investment Advisors, Inc. ("FIA"). The acquisition includes the Fremont Funds, a diversified family of 12 no-load mutual funds managed by independent sub-advisors and investment professionals at FIA, as well as FIA assets in separate accounts and 401(k) plans.
- In November 2004, we completed our purchase of an additional 19% interest in Friess Associates, LLC ("Friess Associates"), under the terms of our original investment in 2001.
- In November 2004, we completed our investment in New York-based TimesSquare Capital Management, LLC ("TimesSquare"), an investment manager of small- and mid-cap growth products. TimesSquare manages assets primarily on behalf of institutional clients, including public and corporate pension funds, endowments and foundations, and Taft-Hartley retirement plans.
- In November 2004, we completed our investment in a significant minority interest in AQR Capital Management, LLC ("AQR"). Greenwich, Connecticut-based AQR is a quantitatively focused firm

with hedge fund and long-only international equity products provided through collective investment vehicles and separate accounts.

- In June 2004, we completed our investment in Genesis Fund Managers LLP ("Genesis"), a manager of emerging markets equity securities with operations in London, Chile and Guernsey. Genesis manages assets in separate accounts, commingled portfolios and closed-end funds for institutional clients in the U.S., Europe and Australia.

In January 2005, we completed the formation of Managers Investment Group LLC ("Managers,"), a distribution platform designed to expand our Affiliates' product offerings and distribution capabilities. Managers operates as a single point of contact for retail intermediaries, offering more than 75 Affiliate products to mutual fund and separate account investors through banks, brokerage firms, insurance companies, and other sponsored platforms such as defined contribution plans.

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 portion of the Affiliate's revenue that is allocated to the owners of that Affiliate (including us) is called the "Owners' Allocation." Each Affiliate allocates its Owners' Allocation to its managers and to us generally in proportion to their and our respective ownership interests in that Affiliate. In these cases, we are generally allocated a percentage of the Affiliate's revenue with the balance to be used to pay operating expenses and profit distributions to the other owners. Although the revenue sharing arrangements that underly our minority equity interest investments do not include an Owners' Allocation, we retain a similar contractual right to receive our distributions of cash.

We agree to a particular revenue sharing arrangement if we believe that the Operating Allocation will cover operating expenses of the Affiliate, including in the event of a potential increase in expenses or a 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 large enough 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 helps 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 that is available for growth initiatives and compensation.

For the nine months ended September 30, 2005, approximately $129.3 million was reported as compensation to our Affiliate managers under these revenue sharing arrangements. Additionally, during this period we allocated approximately $92.4 million of our 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 these cases, we generally provide incentives to management through compensation arrangements based on the performance of the Affiliate. In recent periods, approximately 15% of our earnings has been generated through our profit-based arrangements.

Net Income on our income statement reflects the revenue of our majority-owned Affiliates and our share of income from Affiliates in which we own a minority equity interest, reduced by:

- the operating expenses of our majority-owned Affiliates;

- our operating expenses (i.e. our holding company expenses, including interest, depreciation and amortization, income taxes and compensation for our employees); and

- the profits allocated to managers of our majority-owned Affiliates (i.e. 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 global 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 the 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; most asset-based advisory fees are billed by our Affiliates quarterly. 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"). 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 but may reflect changes related to client withdrawals. 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.

For certain of our Affiliates, generally where we own a minority interest, we are required to use the equity method of accounting. Consistent with this method, we have not consolidated the operating results of these firms (including their revenue) in our income statement. Our share of these firms' profits (net of intangible amortization) is reported in "Investment and other income," and is therefore reflected in our Net Income and EBITDA. As a consequence, increases or decreases in these firms' assets under management ($28.1 billion reported as of September 30, 2005) will not affect reported revenue in the same manner as changes in assets under management at our other Affiliates.

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.



---

**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 the specified periods.

**Assets under Management[(1)]**

| **Operating Segment** *(dollars in billions)* | **December 31, 2004** | **September 30, 2005** |
|---|---|---|
| Mutual Fund | $ 33.9 | $ 49.1 |
| Institutional | 76.1 | 100.0 |
| High Net Worth | 19.8 | 26.2 |
| | $ 129.8 | $ 175.3 |

| **Statement of Changes—Quarter to Date** *(dollars in billions)* | **Mutual Fund** | **Institutional** | **High Net Worth** | **Total** |
|---|---|---|---|---|
| June 30, 2005 | $ 41.5 | $ 79.0 | $ 17.5 | $ 138.0 |
| Net client cash flows | 0.8 | 0.3 | 0.1 | 1.2 |
| New investments[(2)] | 3.6 | 13.8 | 7.5 | 24.9 |
| First Quadrant Limited operations[(3)] | — | (1.1) | — | (1.1) |
| Investment performance | 3.2 | 8.0 | 1.1 | 12.3 |
| September 30, 2005 | $ 49.1 | $ 100.0 | $ 26.2 | $ 175.3 |

| **Statement of Changes—Year to Date** *(dollars in billions)* | **Mutual Fund** | **Institutional** | **High Net Worth** | **Total** |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| December 31, 2004 | $ 34.0 | $ 76.1 | $ 19.7 | $ 129.8 |
| Net client cash flows | 3.9 | 4.3 | (2.1) | 6.1 |
| New investments[2] | 6.4 | 13.9 | 7.6 | 27.9 |
| First Quadrant Limited operations[3] | — | (3.6) | — | (3.6) |
| Investment performance | 4.8 | 9.3 | 1.0 | 15.1 |
| September 30, 2005 | $ 49.1 | $ 100.0 | $ 26.2 | $ 175.3 |

(1) See Note 2 on page 23 for a discussion of the change to our Mutual Fund distribution channel definition in the quarter ended September 30, 2005.

(2) In July 2005, we completed our investments in Foyston, Gordon & Payne Inc.; Beutel, Goodman & Company Ltd.; Montrusco Bolton Investment Inc.; Deans Knight Capital Management Ltd.; Triax Capital Corporation; and Covington Capital Corporation through the acquisition of First Asset Management Inc. Additionally, in January 2005, we acquired the mutual fund business of Fremont Investment Advisors through Managers Investment Group LLC.

(3) In August 2005, we sold our interest in First Quadrant Limited.



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 represent an average of the assets at the beginning and end of each calendar quarter during the applicable period.

| *(in millions, except as noted)* | For the Three Months Ended September 30, 2004 | For the Three Months Ended September 30, 2005 | % Change | For the Nine Months Ended September 30, 2004 | For the Nine Months Ended September 30, 2005 | % Change |
|---|---|---|---|---|---|---|
| **Average assets under management**[1],[2] *(in billions)* | | | | | | |
| Mutual Fund | $ 27.0 | $ 46.0 | 70% | $ 26.8 | $ 40.9 | 53% |
| Institutional | 53.0 | 92.8 | 75% | 47.6 | 82.8 | 74% |
| High Net Worth | 20.6 | 23.0 | 12% | 21.7 | 19.9 | (8)% |
| Total | $ 100.6 | $ 161.8 | 61% | $ 96.1 | $ 143.6 | 49% |
| **Revenue**[2] | | | | | | |
| Mutual Fund | $ 65.2 | $ 108.4 | 66% | $ 189.2 | $ 287.0 | 52% |
| Institutional | 67.0 | 92.2 | 38% | 183.6 | 263.1 | 43% |
| High Net Worth | 33.6 | 33.5 | 0% | 103.2 | 93.9 | (9)% |
| Total | $ 165.8 | $ 234.1 | 41% | $ 476.0 | $ 644.0 | 35% |
| **Net Income**[2] | | | | | | |
| Mutual Fund | $ 8.5 | $ 15.4 | 81% | $ 26.4 | $ 41.3 | 56% |
| Institutional | 5.8 | 10.3 | 78% | 18.0 | 31.0 | 72% |
| High Net Worth | 2.5 | 2.8 | 12% | 9.5 | 8.0 | (16)% |
| Total | $ 16.8 | $ 28.5 | 70% | $ 53.9 | $ 80.3 | 49% |
| **EBITDA**[2][3] | | | | | | |
| Mutual Fund | $ 18.3 | $ 30.6 | 67% | $ 56.0 | $ 80.3 | 43% |
| Institutional | 16.4 | 27.1 | 65% | 49.4 | 80.2 | 62% |
| High Net Worth | 8.0 | 8.4 | 5% | 27.2 | 23.6 | (13)% |
| Total | $ 42.7 | $ 66.1 | 55% | $ 132.6 | $ 184.1 | 39% |

(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 respective investment. These amounts include the assets managed by affiliated investment management firms whose financial results are not consolidated for financial reporting purposes of $0.2 billion and $23.5 billion for the three months ended September 30, 2004 and 2005, respectively, and $0.2 billion and $17.1 billion for the nine months ended September 30, 2004 and 2005, respectively.

(2) Note 10 to our Consolidated Financial Statements describes the basis of presentation of the financial results of our three operating segments. During the quarter ended September 30, 2005, we amended the definition of the Mutual Fund distribution channel in conjunction with our acquisition of First Asset, which increased the number of investment products managed by our Affiliates that are registered abroad. As a result, certain reclassifications have been made to prior period financial results of our operating segments to conform them to the amended definition. These reclassifications are not material to the financial results of any of our operating segments.

(3) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. Our use of EBITDA, including a reconciliation to cash flow from operations, is described in greater detail in “Liquidity and Capital Resources—Supplemental Liquidity Measure.” 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 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 $68.3 million (or 41%) in the quarter ended September 30, 2005, as compared to the quarter ended September 30, 2004, primarily as a result of a 61% increase in average assets under management, and increased $168.0 million (or 35%) in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004, primarily as a result of a 49% increase in average assets under management. These increases in assets under management resulted principally from our investments in new Affiliates and positive investment performance and cash flows. The increases in revenue were proportionately less than the increases in assets under management primarily as a result of our equity method investments, as we do not consolidate the revenue or expenses of these Affiliates.

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

*Mutual Fund Distribution Channel*

Our revenue increased $43.2 million (or 66%) in the quarter ended September 30, 2005, as compared to the quarter ended September 30, 2004, primarily as a result of a 70% increase in average assets under management, and increased $97.8 million (or 52%) in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004, primarily as a result of a 53% increase in average assets under management. These increases in assets under management resulted principally from positive investment performance and cash flows and, to a lesser extent, from our investments in new Affiliates.

*Institutional Distribution Channel*

Our revenue increased $25.2 million (or 38%) in the quarter ended September 30, 2005, as compared to the quarter ended September 30, 2004, primarily as a result of a 75% increase in average assets under management, and increased $79.5 million (or 43%) in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004, primarily as a result of a 74% increase in average assets under management. The increases in assets under management resulted principally from our investments in new Affiliates. The increases in revenue were proportionately less than the increases in assets under management primarily as a result of our equity method investments in new Affiliates, as we do not consolidate revenue or expenses of such Affiliates. Assets under management also increased as a result of positive investment performance and positive net client cash flows.



*High Net Worth Distribution Channel*

Our revenue remained effectively unchanged in the quarter ended September 30, 2005 as compared to the quarter ended September 30, 2004, as increases relating to our investments in new Affiliates and positive investment performance during the twelve months ended September 30, 2005 were offset by net client cash outflows at Rorer Asset Management, LLC. The increases in revenue were proportionately less than the increases in assets under management primarily as a result of our equity method investments, as we do not consolidate the revenue or expenses of these Affiliates. Revenue decreased $9.3 million (or 9%) in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004, primarily as a result of an 8% decrease in average assets under management. The decrease in assets under management was primarily attributable to net client cash outflows at Rorer Asset Management, LLC.

***Operating Expenses***

The following table summarizes our consolidated operating expenses:

| | For the Three Months Ended September 30, | | | For the Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| (dollars in millions) | 2004 | 2005 | % Change | 2004 | 2005 | % Change |
| Compensation and related expenses | $ 61.3 | $ 95.5 | 56% | $ 176.2 | $ 259.5 | 47% |
| Selling, general and administrative | 28.4 | 44.0 | 55% | 77.1 | 115.3 | 50% |
| Amortization of intangible assets | 5.0 | 6.5 | 30% | 13.2 | 18.0 | 36% |
| Depreciation and other amortization | 1.6 | 2.0 | 25% | 4.7 | 5.1 | 9% |
| Other operating expenses | 5.1 | 5.3 | 4% | 12.4 | 15.1 | 22% |
| Total operating expenses | $ 101.4 | $ 153.3 | 51% | $ 283.6 | $ 413.0 | 46% |

A substantial portion of our operating expenses is incurred by our Affiliates, and the 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 Operating Allocations. During the three and nine month periods ended September 30, 2005, approximately $49 million and $129 million (or about 52% and 50%), respectively, 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, at our profit-based Affiliates, we generally participate fully in any increase or decrease in revenue and expenses.

Compensation and related expenses increased 56% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004, and increased 47% in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004. The increases in compensation and related expenses were primarily a result of 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. For the three months ended September 30, 2005, the increase was also related to a $7.3 million increase in aggregate Affiliate expenses from our 2004 and 2005 investments in new Affiliates and a $3.4 million increase in holding company



compensation (relating to equity-based incentive compensation accruals and increases in holding company personnel). For the nine months ended September 30, 2005, the increase was similarly related to a $37.0 million increase in aggregate Affiliate expenses from our investments in new Affiliates and a $7.9 million increase in holding company compensation (relating to equity-based incentive compensation accruals and increases in holding company personnel). The remaining increase in compensation in both periods presented is associated with our formation of Managers Investment Group.

Selling, general and administrative expenses increased 55% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004, and increased 50% in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004. The increases in selling, general and administrative expenses were principally attributable to increases in sub-advisory and distribution expenses resulting from the growth in assets under management at our Affiliates in the Mutual Fund distribution channel, as well as nonrecurring expenses at certain Affiliates. Additionally, selling, general and administrative expenses increased as a result of increases in aggregate Affiliate expenses from our 2004 and 2005 investments in new Affiliates ($4.5 million for the three-month period ended September 30, 2005, and $16.1 million for the nine-month period ended September 30, 2005).

Amortization of intangible assets increased 30% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004, and increased 36% in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004. These increases resulted principally from an increase in definite-lived intangible assets resulting from our investments in new and existing Affiliates during 2004 and 2005.

Other operating expenses increased 4% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004, and 22% in the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. The increase in the three month period ended September 30, 2005 resulted principally from increases in aggregate Affiliate expenses from our 2004 and 2005 investments in new Affiliates. The increase in the nine month period ended September 30, 2005 resulted from increases in aggregate Affiliate expenses from our new investments ($1.9 million) partially offset by decreases in spending at certain Affiliates.

***Other Income Statement Data***

The following table summarizes other income statement data:

| | For the Three Months Ended September 30, | | | For the Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| *(dollars in millions)* | 2004 | 2005 | % Change | 2004 | 2005 | % Change |
| Investment and other income (loss) | $ (1.4) | $ 7.1 | 607% | $ 2.2 | $ 16.2 | 636% |
| Minority interest | 26.8 | 32.6 | 22% | 80.0 | 92.4 | 16% |
| Interest expense | 8.2 | 10.1 | 23% | 24.3 | 26.7 | 10% |
| Income tax expense | 11.2 | 16.7 | 49% | 36.4 | 47.8 | 31% |

Investment and other income primarily consists of the following:

· our share of income from Affiliates accounted for under the equity-method, net of any related intangible amortization;

· earnings on cash and cash equivalent balances;



· earnings that Affiliates realize on any investments (in accordance with our Affiliate operating agreements, these earnings are generally allocated to our management partners and accordingly result in an increase in minority interest expense on our Statement of Operations); and

· gains and losses resulting from changes in foreign currency exchange rates.

Investment and other income increased 607% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004 and increased 636% in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004. These increases resulted primarily from income from our investments in new Affiliates which are accounted for under the equity method of accounting ($4.2 million and $10.3 million of net income in the three month and nine month periods ended September 30, 2005, respectively).

Minority interest increased 22% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004, principally as a result of the previously discussed increase in revenue. This increase was proportionately less than the percentage increase in revenue because of our November 2004 purchase of an additional 19% interest in Friess Associates, which decreased minority interest by $1.6 million and investment spending by certain Affiliates from their Owners' Allocation, which decreased minority interest by $2.3 million. Minority interest increased 16% in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004 principally as a result of the previously discussed increases in revenue. The percentage increase in minority interest during the nine month period ended September 30, 2005 was proportionately less than the percentage increase in revenue because of an $6.3 million increase in investment spending by certain Affiliates from their Owners' Allocation, and our November 2004 purchase of an additional 19% in Friess Associates, which decreased minority interest by $8.4 million.

Interest expense increased 23% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004 and increased 10% in the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004. For the three month period ended September 30, 2005, the increase resulted from borrowings on our Facility ($1.9 million). For the nine month period ended September 30, 2005, the increase was principally attributable to our 2004 PRIDES ($1.4 million), our floating rate senior convertible securities ($4.0 million) and borrowings under our Facility ($2.9 million). These increases were partially offset by a decrease in interest expense that resulted from our 2004 repurchase of a majority of the senior notes component of our 2001 PRIDES ($1.4 million and $6.3 million for the three- and nine-month periods ended September 30, 2005, respectively).

Income taxes increased by 49% in the three months ended September 30, 2005, as compared to the three months ended September 30, 2004, and increased 31% for the nine month period ended September 30, 2005, as compared to the nine months ended September 30, 2004. These increases were principally attributable to the increases in income before taxes, partially offset by decreases in our effective tax rate from 40% in the three months ended September 30, 2004 to 37% in the three months ended September 30, 2005 and from 40.3% for the nine months ended September 30, 2004, to 37.3% for the nine months ended September 30, 2005. The above-described decreases in the effective tax rate principally resulted from the proportionate increase in income from Affiliates located in lower-taxed domestic and foreign jurisdictions.



***Net Income***

The following table summarizes Net Income:

| (dollars in millions) | For the Three Months Ended September 30, 2004 | 2005 | % Change | For the Nine Months Ended September 30, 2004 | 2005 | % Change |
|---|---|---|---|---|---|---|
| Net Income | $ 16.8 | $ 28.5 | 70% | $ 53.9 | $ 80.3 | 49% |

The increase in Net Income in the three and nine month periods ended September 30, 2005, as compared to the three and nine month periods ended September 30, 2004, resulted principally from the increases in revenue and investment and other income, partially offset by net 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 us, 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 convertible securities or other depreciation expenses.

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

| (dollars in millions) | For the Three Months Ended September 30, 2004 | 2005 | For the Nine Months Ended September 30, 2004 | 2005 |
|---|---|---|---|---|
| **Net Income** | $ 16.8 | $ 28.5 | $ 53.9 | $ 80.3 |
| Intangible amortization | 5.0 | 6.5 | 13.2 | 18.0 |
| Intangible amortization—equity method investment. | — | 2.2 | — | 6.2 |
| Intangible-related deferred taxes | 6.4 | 7.1 | 18.7 | 21.9 |
| Affiliate depreciation | 1.1 | 1.5 | 3.2 | 3.5 |
| **Cash Net Income** | $ 29.3 | $ 45.8 | $ 89.0 | $ 129.9 |



Cash Net Income increased 56% and 46% in the three and nine month periods ended September 30, 2005, as compared to the three and nine month periods ended September 30, 2004, 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:

| (dollars in millions) | December 31, 2004 | September 30, 2005 |
|---|---|---|
| **Balance Sheet Data** | | |
| Cash and cash equivalents | $ 140.3 | $ 139.2 |
| Senior revolving credit facility | 51.0 | 191.0 |
| Senior notes due 2006 | 75.8 | 65.8 |
| Zero coupon convertible debt | 124.0 | 124.4 |
| Floating rate convertible securities | 300.0 | 300.0 |
| Mandatory convertible securities | 300.0 | 300.0 |

| | For the Three Months Ended September 30, 2004 | 2005 | For the Nine Months Ended September 30, 2004 | 2005 |
|---|---|---|---|---|

| Cash Flow Data | | | | |
|---|---|---|---|---|
| Operating cash flow | $ 51.1 | $ 75.3 | $ 128.5 | $ 136.6 |
| Investing cash flow | (5.3) | (66.5) | (98.5) | (72.2) |
| Financing cash flow | (75.9) | (42.3) | 24.2 | (66.2) |
| EBITDA(1) | 42.7 | 66.1 | 132.6 | 184.1 |

(1) The definition of EBITDA is presented in Note 3 on page 23.

We have met our cash requirements primarily through cash generated by operating activities. Our acquisition of First Asset was the principal use of cash in the nine months ended September 30, 2005. 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 2004 PRIDES is comprised of a senior note and a forward purchase contract. Under the terms of the securities, the exercise of the forward purchase contracts will result in the issuance of shares of our common stock that will generate cash proceeds equal to the remaining note portion of the securities. 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 2004 PRIDES securities and our net debt approach. At September 30, 2005, our leverage ratio was 2.3:1.

We have a cash management program that enables our Affiliates to invest their excess cash with us to achieve a competitive rate of return. At September 30, 2005, our Affiliates had invested approximately $61 million with us in this program. These investments are eliminated for accounting purposes and are not reflected on our Consolidated Balance Sheet.



*Senior Revolving Credit Facility*

We have a senior revolving credit facility ("Facility") with a syndicate of major commercial banks under which we may borrow up to $405 million 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, that is scheduled to mature in August 2007. Subject to the agreement of the lenders (or prospective lenders) to increase their commitments, we have the option to increase the Facility up to an aggregate of $450 million. 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. Borrowings under the Facility are collateralized by pledges of all capital stock or other equity interests owned by us.

We expect to close an amended and restated credit facility in the quarter ending December 31, 2005. It is expected that the new facility will contain terms substantially similar to the existing Facility and will increase borrowing capacity at more favorable interest rates.

*Senior Notes due 2006*

In December 2001, we issued $230 million of mandatory convertible securities ("2001 PRIDES"). 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, and (ii) a forward purchase contract pursuant to which the holder agreed to purchase shares of our common stock on November 17, 2004, with the number of shares determined based upon the average trading price of our common stock for a period preceding that date.

The Company repurchased $154 million in aggregate principal amount of the senior notes component of the 2001 PRIDES ("Senior Notes due 2006") and settled the forward purchase contracts in 2004. During the second quarter of 2005, the Company repurchased $10 million of the Senior Notes due 2006; the remaining $66 million matures in November 2006 and has an interest rate of 5.406%.

*Zero Coupon Senior Convertible Notes*

In May 2001, we issued $251 million principal amount at maturity of zero coupon senior convertible notes due 2021 ("zero coupon convertible notes"), with each note issued at 90.50% of such principal amount and accreting at a rate of 0.50% per year. Following our 2003 repurchase of $116.5 million principal amount of such notes, $134.5 million principal amount at maturity of zero coupon convertible notes remains outstanding. Each security is convertible into 17.429 shares of our common stock (at a current base conversion price of $53.01) 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 in April 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 in May 2006, 2011 and 2016. If the holders exercise this option in the future, we may elect to repurchase the securities with cash, shares of our common stock or some combination thereof. We have the option to redeem the securities for cash on or after May 7, 2006 at their accreted value. Under the terms of the indenture governing the zero coupon convertible notes, a holder may convert such security into common stock by following the conversion procedures in the indenture; subject to changes in the price of our common stock the zero coupon convertible notes may cease to be convertible in the future.

*Floating Rate Senior Convertible Securities*

In February 2003, we issued $300 million of floating rate senior convertible securities due 2033 ("floating rate convertible securities"). The floating rate 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 our



common stock (at a base conversion price of $54.17) upon the occurrence of certain events, including the following: (i) if the closing price of a share of our common stock exceeds $65.00 over certain periods; (ii) if the credit rating assigned by Standard & Poor's is below BB-; or (iii) if we call the securities for redemption. Upon conversion, holders of the securities will receive 18.462 shares of our common stock for each convertible security. In addition, if the market price of our common stock exceeds the base conversion price 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 our common stock as of September 30, 2005, upon conversion a holder of each security would receive an additional 2.835 shares. The holders of the floating rate convertible securities may require us to repurchase such securities in February 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 may redeem the convertible securities for cash at any time on or after February 25, 2008, at their principal amount. Under the terms of the indenture governing the floating rate convertible securities, a holder may convert such security into common stock by following the conversion procedures in the indenture; subject to changes in the price of the Company's common stock, floating rate convertible securities may cease to be convertible in the future.

We have entered into interest rate swap contracts that effectively exchange the variable interest rate for a fixed interest rate on $150 million of the floating rate convertible securities. For the period through February 2008, we will pay a weighted average fixed rate of 3.3% on that notional amount.

*2004 Mandatory Convertible Securities*

In February 2004, we issued $300 million of mandatory convertible securities ("2004 PRIDES"). As described below, these securities are 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 consists of (i) a senior note due February 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 in February 2008. Holders of the purchase contracts receive a quarterly contract adjustment payment at the annual rate of 2.525% per $1,000 purchase contract. The current portion of the contract adjustment payments, approximately $6.8 million, is recorded in current liabilities. The number of shares to be issued in February 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 11.785 to 18.031 shares per $1,000 purchase contract. Based on the trading price of our common stock as of September 30, 2005, the purchase contracts would have a settlement rate of 13.808.

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 gross proceeds to be used by the original holders of the 2004 PRIDES to fulfill 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.

*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 a



conditional right to require Affiliate managers to sell their retained equity interests to us upon their death, permanent incapacity or termination of employment and provide Affiliate managers a conditional right to require us to purchase such retained equity interests upon the occurrence of specified events. These purchases may occur in varying amounts over a period of approximately 15 years (or longer), and the actual timing and amounts of such purchases (or the actual occurrence 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 September 30, 2005, the aggregate amount of these payments would have totaled approximately $935.0 million. In the event that all such transactions were closed, we would own the cash flow distributions attributable to the additional equity interests purchased from our Affiliate managers. As of September 30, 2005, this amount would represent approximately $127.9 million on an annualized basis. We may pay for these purchases in cash, shares of our common stock or other forms of consideration. Affiliate management partners are also permitted to sell their equity interests to other individuals or entities in certain cases, subject to our approval or other restrictions. 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 for the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004, resulted principally from the growth in revenue and earnings in the nine months ended September 30, 2005 as compared to the same period in 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:

| (dollars in millions) | For the Three Months Ended September 30, 2004 | 2005 | For the Nine Months Ended September 30, 2004 | 2005 |
|---|---|---|---|---|
| **Cash flow from operations** | $ 51.1 | $ 75.3 | $ 128.5 | $ 136.6 |
| Interest expense, net of non-cash items | 6.8 | 8.8 | 20.6 | 23.0 |
| Current tax provision | 3.2 | 8.8 | 13.4 | 23.9 |
| Income from equity method investment, net of distributions | — | 2.2 | — | 6.0 |
| Changes in assets and liabilities and other adjustments | (18.4) | (29.0) | (29.9) | (5.4) |
| **EBITDA** | $ 42.7 | $ 66.1 | $ 132.6 | $ 184.1 |

***Investing Cash Flow***

The net cash flow used in investing activities decreased for the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004, primarily as a result of our disposition of our short-term investments.

***Financing Cash Flow***

Net cash flows used in financing activities were $66.2 million for the nine months ended September 30, 2005, as compared to positive net cash flows from financing activities of $24.2 million for the nine months ended September 30, 2004. This change was primarily attributable to our February 2004 issuance of 2004 PRIDES.

***Contractual Obligations***

The following table summarizes our contractual obligations as of September 30, 2005:

| | | Payments Due | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** (dollars in millions) | **Total** | **Remainder of 2005** | **2006-2007** | **2008-2009** | **Thereafter** |
| Senior debt | $ 260.8 | $ 0.9 | $ 259.9 | $ — | $ — |
| Senior convertible debt | 436.2 | 1.2 | 9.8 | 0.8 | 424.4 |
| Mandatory convertible securities(1) | 373.7 | 5.0 | 39.9 | 25.7 | 303.1 |
| Purchases of Affiliate equity(2) | 935.0 | — | 347.3 | 145.5 | 442.2 |
| Leases | 108.3 | 4.4 | 34.1 | 27.7 | 42.1 |
| Other liabilities(3) | 21.8 | 1.4 | 18.3 | 2.1 | — |
| **Total** | $ 2,135.8 | $ 12.9 | $ 709.3 | $ 201.8 | $ 1,211.8 |

(1) As more fully discussed on page 29, 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 settlement date 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 the securities.

(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 may occur



in varying amounts over the next 15 years (or longer), and the actual timing and amounts of such purchases (or the actual occurrence 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. Affiliate management partners are also permitted to sell their equity interests to other individuals or entities in certain cases, subject to our approval or other restrictions. As one measure of the potential magnitude of such purchases, assuming that all such purchases had been effected as of September 30, 2005, the aggregate purchase amount would have totaled approximately $935.0 million. Assuming the closing of such additional purchases, we would own the cash flow distributions attributable to the additional equity purchased, estimated to be approximately $127.9 million on an annualized basis as of September 30, 2005.

(3) Other liabilities reflect amounts payable to Affiliate managers related to our purchase of additional Affiliate equity interests (see Note 8 to the Consolidated Financial Statements).

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We operate primarily in the United States, and accordingly most of our consolidated revenue and associated expenses are denominated in U.S. dollars. We also provide services and earn revenue in Canada and across Europe; the portion of our revenue and expenses denominated in foreign currencies may be impacted by movements in currency exchange rates.

There have been no other significant changes to our Quantitative and Qualitative Disclosures About Market Risk in the three months ended September 30, 2005. Please refer to Item 7A in our 2004 Annual Report on Form 10-K.

## 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 during the quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2005, our disclosure controls and procedures are effective in providing reasonable assurance 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 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.

As more fully described in Note 11 to the Consolidated Financial Statements included within Part I of this Quarterly Report on Form 10-Q, we completed the acquisition of First Asset during the quarter ended September 30, 2005 and are in the process of conforming First Asset's operating activities to our controls and procedures.



## 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. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) None.

(b) None.

(c) Purchases of Equity Securities by the Issuer.

| 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 Outstanding Plans or Programs |
|---|---|---|---|---|
| July 1 - 31, 2005 | 17,000 | $ 71.29 | 17,000 | 1,933,215 |
| August 1 - 31, 2005 | 508,900 | $ 71.62 | 525,900 | 1,424,315 |
| September 1 - 30, 2005 | 25,000 | $ 73.54 | 550,900 | 1,399,315 |
| Total | 550,900 | $ 71.70 | 550,900 | |

(1) In April 2000, our Board of Directors announced a share repurchase program permitting us to repurchase up to 5% of our 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 our issued and outstanding shares of common stock. In April 2003, our Board of Directors announced a share repurchase program permitting us to repurchase up to an additional 5% of our 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**

None.

**Item 5. Other Information**

We adopted an Executive Retention Plan (the "2005 Plan") to update our existing Executive Retention Plan. Consistent with our Compensation Committee's objective that executive compensation be closely aligned with increases in stockholder value and retain key members of senior management, the 2005 Plan is designed to work in concert with our stockholder-approved Long-Term Executive Incentive Plan, providing a trust vehicle for long-term compensation awards based upon our performance and growth. As with the existing plan, the 2005 Plan permits the Compensation Committee to make awards to officers that may be invested in our common stock, in Affiliate investment products, and in cash accounts, in each case subject to vesting and forfeiture provisions. Under the terms of the 2005 Plan, investment decisions will be made by the recipient; under the existing plan, such decisions had been made by an investment committee comprised of our executive officers.

**Item 6. Exhibits**

The exhibits are listed on the Exhibit Index and are included elsewhere in this Quarterly Report on Form 10-Q.



## 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)

November 9, 2005

/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 |
|---|---|
| 10.1 | Affiliated Managers Group, Inc. Executive Retention Plan. |
| 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 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Registrant’s Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Exhibit 10.1

**AFFILIATED MANAGERS GROUP, INC.**
**EXECUTIVE RETENTION PLAN**

**Preamble**

This Plan shall be known as the Affiliated Managers Group, Inc. Executive Retention Plan (the "Plan"). The object of the Plan is to reward certain select management employees of Affiliated Managers Group, Inc. ("AMG") and to align the interests of those employees with those of AMG's shareholders.

The Plan is not intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, and is not subject to the Employee Retirement Income Security Act of 1974, as amended.

**SECTION I. DEFINITIONS**

Section 1.1. "Account" means one or more of a Participant's AMG Stock Account, a Participant's Affiliate Investments Account, a Participant's Other Investments Account or the Unallocated Account, as the context requires.

Section 1.2. "Administrative Committee" means the committee of the Board appointed by the Board to administer the Plan. Initially, the Administrative Committee shall be the Compensation Committee.

Section 1.3. "Affiliate Investment" means an equity investment by the Trust in investment products managed or advised by an affiliate or subsidiary of AMG.

Section 1.4. "Affiliate Investments Account" means the separate account established in the name of each Participant under Section 4.1 to hold cash (and Affiliate Investments purchased with such cash) and any distribution received with respect to such cash or Affiliate Investments.

Section 1.5. "AMG Stock Account" means the separate account established in the name of each Participant under Section 4.1 to hold cash, shares of Stock and any distributions received with respect to such Stock.

Section 1.6. "Beneficiary" means the person or persons (including a trust or estate) who are entitled to receive any benefit payable hereunder by reason of the death of a Participant, as designated pursuant to Section 9.1.

Section 1.7. "Board" means the Board of Directors of AMG.

Section 1.8. "Cause" means any of the following: (a) the Participant's conviction, whether following trial or by plea of guilty or nolo contendere (or similar plea), in a criminal proceeding (i) on a misdemeanor charge involving fraud, false statements or misleading omissions, wrongful taking, embezzlement, bribery, forgery, counterfeiting or extortion, or (ii) on a felony charge or (iii) on an equivalent charge to those in clauses (i) and (ii) in jurisdictions which do not use those designations; (b) the Participant's willful or grossly negligent failure to perform duties owed to AMG; (c) the Participant's willful violation of any securities or commodities laws, any rules or regulations issued pursuant to such laws, or the rules and regulations of any securities or commodities exchange or association of which AMG or any of its subsidiaries or affiliates is a member; or (d) the Participant's willful violation of any Firm policy concerning hedging or confidential or proprietary information, or material violation of any other Firm policy as in effect from time to time. The determination as to whether "Cause" has occurred shall be made by the Administrative Committee. In the event the Administrative Committee believes that a Participant has engaged in of any of Causes (b) through (d) above, the Administrative Committee shall give written notice to such Participant of such Cause with sufficient particularity to permit the Participant to cure such Cause within 30 days following such written notice. The Administrative Committee shall also have the authority to waive the consequences under the Plan of the existence or occurrence of any of the events, acts or omissions constituting "Cause".

Section 1.9. "Change in Control" means the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving AMG (a "Reorganization") or sale or other disposition of all or substantially all of AMG's assets to an entity that is not an affiliate of AMG (a "Sale"), that in each case requires the approval of AMG's stockholders under the law of AMG's jurisdiction of organization, whether for such Reorganization or Sale (or the issuance of securities of AMG in such Reorganization or Sale), unless, immediately following such Reorganization or Sale, at least a majority of the members of the board of directors (or similar officials in the case of an entity other than a corporation) of the parent entity (or, if there is no parent entity, the surviving entity) following the consummation of the Reorganization or Sale were, at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization or Sale, individuals (the "Incumbent Directors") who either (1) were members of the Board on the Effective Date or (2) became directors subsequent to the Effective Date and whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of AMG's proxy statement in which such persons are named as a nominee for director); but provided further that any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director.

Section 1.10. "Code" means the Internal Revenue Code of 1986, as amended, from time to time.

Section 1.11. "Disability" means a disability as defined in any long-term disability plan of AMG or, in the absence of such plan, the inability of the Participant to perform the functions of his or her position with AMG for a period of 150 consecutive business days or 200 business days in a period of 365 consecutive days as determined by a physician selected by the Administrative Committee in its reasonable business judgment.

Section 1.12. "Effective Date" means November 7, 2005.

Section 1.13. "Employment" means a Participant's performance of services for AMG, as determined by the Administrative Committee. The terms "employ" and "employed" shall have their correlative meanings.

Section 1.14. "Fair Market Value" means, with respect to Plan Assets on any day, for any security listed on nationally recognized securities exchange, the closing asked price on the most recent day on which such security was traded or, if not so listed, the fair market value as determined in accordance with a valuation methodology approved by the Administrative Committee.

Section 1.15. "Investment Administrator" means the person or persons appointed by the Administrative Committee with the power to direct the Trustee as to investment of Plan Assets pursuant to the investment elections set forth in each Participant's executed Award and Election Form. Each of John Kingston, III and Darrell W. Crate shall have the authority to act singly as the initial Investment Administrator hereunder.

Section 1.16. "Other Investments Account" means the separate account established in the name of each Participant under Section 4.1 to hold cash (and investments (other than AMG Stock or Affiliate Investments purchased with such cash), in accordance with investment options as approved by the Administrative Committee) and any distribution received with respect to such cash or investments.

Section 1.17. "Participant" means an employee of AMG who is designated as a Participant by the Administrative Committee pursuant to Article II.

Section 1.18. "Participant's Accounts" means a Participant's AMG Stock Account, Affiliate Investments Account and Other Investments Account.

Section 1.19. "Plan" means Affiliated Managers Group, Inc. Executive Retention Plan, as described herein and as hereafter amended from time to time.

Section 1.20. "Plan Assets" means cash, Stock or other assets contributed to the Trust by AMG and any other assets or instruments into which such contributions are converted pursuant to the Trust, without regard to whether such Plan Assets are held in the Unallocated Account, an AMG Stock Account, an Affiliate Investments Account or an Other Investments Account.

Section 1.21. "Plan Year" means any calendar year or part thereof beginning on the Effective Date.

Section 1.22. "Stock" means shares of AMG's common stock, par value $0.01 per share.

Section 1.23. "Trust" means the legal entity created by the Trust Agreement.

Section 1.24. "Trust Agreement" means the agreement, dated as of the Effective Date,



by and between AMG and the Trustee, including any amendments thereto, setting forth the rights and obligations of the parties thereto in respect of the contributions to and distributions from the Trust, and the establishment and administration of the Accounts pursuant to the Plan.

Section 1.25. "Trustee" means any corporation, individual or individuals who shall accept the appointment as trustee to execute the duties of the trustee pursuant to the Trust Agreement.

Section 1.26. "Unallocated Account" means a separate account established under Section 4.1 to hold Plan Assets arising from AMG's contributions, forfeitures or distributions in respect of such Plan Assets pending the allocation and reallocation of such Plan Assets to the AMG Stock Accounts, Affiliate Investments Accounts or Other Investments Accounts of Participants.

**SECTION II. ELIGIBILITY AND PARTICIPATION**

Each employee designated by the Administrative Committee shall become a Participant in the Plan on the date he or she is so designated. A Participant shall remain a Participant until the date he or she receives a distribution of the entire vested portion of his or her Participant's Accounts or, if earlier, the date such Participant's interest in his or her Participant's Accounts is forfeited in accordance with Article V.

**SECTION III. CONTRIBUTIONS**

AMG may irrevocably contribute cash to the Trust from time to time at its sole discretion.



**SECTION IV. ALLOCATION OF CONTRIBUTIONS**

Section 4.1. Establishment of Accounts. There shall be established an AMG Stock Account, an Affiliate Investments Account and an Other Investments Account in the name of each Participant and a separate account (the Unallocated Account) to which any forfeitures occurring hereunder may be credited pending allocation to Participants. The Accounts shall also hold any distributions with respect to the Plan Assets held therein until such distributions are payable pursuant to the Plan.

Section 4.2. Allocations to Participants. The Administrative Committee shall in its sole discretion designate the total of any contributions and forfeitures allocable to each Participant each Plan Year. In the absence of a designation by the Administrative Committee as to any Plan Year, the allocation formula of the previous Plan Year shall be used as of the end of such Plan Year, adjusted as follows: any allocation from such previous Plan Year for Plan

Participants whose accounts were forfeited pursuant to Section 5.5 or who are no longer employees of AMG shall be allocated among the remaining Participants such that the ratio of allocations relating to the previous Plan Year among such remaining Participants is preserved. The Investment Administrator shall direct the Trustee to invest such amounts among each Participant's Accounts pursuant to investment directions given by Participants on an Award and Election Form provided by the Company, in the form attached hereto and accepted by the Administrative Committee.

Section 4.3. Investment. The AMG Stock Account shall be invested solely in shares of AMG Stock that the Trustee shall purchase from AMG or pursuant to open market transactions with any cash contribution made by AMG. The Affiliate Investments Account shall be invested by the Trustee in such Affiliate Investments as directed by the Investment Administrator from cash contributions made by AMG. The Other Investments Account shall be invested by the Trustee in cash or investments (other than AMG Stock or Affiliate Investments) as directed by the Investment Administrator from cash contributions made by AMG.

Section 4.4. Voting of Stock; Tender or Exchange Offers. With respect to the Plan Assets allocated to Participant's Accounts, each Participant shall be entitled to instruct the Trustee, on a confidential basis (a) as to the manner in which the Trustee's rights will be exercised with respect to any matter which involves the voting or other similar rights attached to such Plan Assets, (b) in the event of a tender or exchange offer for all or substantially all of the Stock of AMG, whether such Stock shall be tendered or exchanged by the Trustee, and (c) in the event of a tender or exchange offer for all or substantially all of the stock or securities of a person other than AMG (or its affiliates), whether such Stock shall be tendered or exchanged by the Trustee. Without limiting the foregoing, the Trust Agreement shall provide that the Trustee shall have no discretion and shall be required to vote, tender or exchange Plan Assets held by the Trust as follows: (i) Plan Assets allocated to Participant's Accounts shall be voted, tendered or exchanged, as applicable, in accordance with any instructions received from such Participant or



such Participant's authorized representative pursuant to a duly executed power of attorney or similar instrument, (ii) Plan Assets held in Participant's Accounts with respect to which the Trustee does not receive instructions shall not be voted, tendered or exchanged, as applicable, and (iii) Plan Assets held in the Unallocated Account shall be voted, tendered or exchanged, as applicable, in the same proportion as the applicable Plan Assets allocated to Participant's Accounts with respect to which instructions are received by the Trustee are voted, tendered or exchanged.

**SECTION V. VESTING**

Section 5.1. Vesting. Unless otherwise set forth in such Participant's Award and Election Form, a Participant's interest in his or her AMG Stock Account, Affiliate Investments Account and Other Investments Account shall vest in four equal annual increments of twenty-five percent (25%) commencing on the first day of the new calendar year following the one year anniversary of the date of grant. Subject to the determination of the Administrative Committee, vesting of stock in the AMG Stock Account or Affiliate Investments Account shall be subject to rounding to avoid the vesting of fractional shares.

Section 5.2. Deferral. No Participant shall be permitted to defer the vesting of Accounts that would otherwise vest pursuant to the terms of this Section V.

Section 5.3. Vesting of Forfeitures. Forfeitures allocated among Participants pursuant to Section 5.5 shall vest in accordance with Section 5.1, unless otherwise decided by the Administrative Committee.

Section 5.4. Special Rule. Notwithstanding any other provision of this Plan, provided that a Participant's Accounts have not previously been forfeited, such Participant shall be 100% vested in his or her Participant's Accounts upon (i) the death or Disability of such Participant, (ii) such Participant's termination of Employment by AMG without Cause or other involuntary termination of employment, (iii) the termination of the Plan or (iv) a Change in Control. Except as set forth in this Section 5.4, the accelerated vesting of Accounts shall be prohibited.

Section 5.5. Forfeiture. Except as specified in Section 5.4 hereof, unvested Plan Assets in any Participant's Accounts shall be immediately forfeited and such unvested Plan Assets shall not be distributable to such Participant upon the termination of Employment of the Participant.

In the event of such forfeiture, all unvested Plan Assets in any such former Participant's Accounts shall be returned to the Unallocated Account, added to any contributions for such Plan Year and allocated as of the end of the Plan Year in accordance with the provisions of Section 4.2 hereof. In the event that all Participants forfeit the unvested Plan Assets, such unvested Plan Assets shall be distributed to a Section 501(c)(3) organization as directed by the Investment Administrator.



**SECTION VI. DISTRIBUTIONS**

Section 6.1. General. Except as provided below and in Section 9.10, all vested Plan Assets credited to any Participant's Accounts shall be promptly distributed to such Participant (or, if applicable, his or her Beneficiary) and shall be subject to the provisions of Sections 9.8 and 9.9, provided that any such distribution shall be made no later than March 15 of the calendar year following the year in which such Plan Assets become vested. The distribution of shares of Stock shall be in whole shares only with any remainder being paid in cash; all other distributions shall be in cash or as the Administrative Committee determines.

Section 6.2. Earnings. All net income and net gain allocable to each Participant's Accounts for a taxable year shall be distributed from the Trust to each such Participant no less often than annually, and in any event by March 15 of the year following the year in which net income or net gain arises, without regard to whether such Participant is vested in Plan Assets held in his or her Accounts. For the avoidance of doubt, net income and net capital gain attributable to Plan Assets held in the Unallocated Account, shall be allocated to Participants in accordance with Section 4.2 and distributed as provided herein. No net taxable income or net taxable gain shall be allocated to the Unallocated Account. No interest shall be payable on dividends or other earnings allocated to a Participant's Accounts but not yet distributed.

**SECTION VII. ADMINISTRATION OF PLAN**

Section 7.1. Plan Administrator. The Plan Administrator shall be the Administrative Committee which shall have complete control over the administration of the Plan and shall have the authority in its sole discretion to (a) exercise all of the powers granted to it under this Plan, (b) construe, interpret and implement the Plan, (c) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing its own operations, (d) make all determinations necessary or advisable in administering the Plan, and (e) correct any defect, supply any omission and reconcile any inconsistency in the Plan. Action by the Administrative Committee may be taken by the vote of a majority of its members. Any action may be taken by a written instrument signed by a majority of the members of the Administrative Committee and action so taken shall be fully as effective as if it had been taken by a vote at a meeting. The determinations of the Administrative Committee on all matters relating to the Plan shall be final, binding and conclusive. The responsibility of the Administrative Committee with respect to the management or control of the assets of the Trust may be delegated or allocated to the Trustee and, for investment direction to the Investment Administrator.

Section 7.2. Indemnification. No member of the Administrative Committee, the Investment Administrator or any employee of AMG shall be liable for any action or determination made in good faith with respect to the Plan. Each such person shall be indemnified and held harmless by AMG against and from any loss, cost, liability, or expense that may be imposed upon or incurred by such person in connection with or resulting from any action, suit or proceeding to which such person may be a party or in which such person may be involved



by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by such person, with AMG's approval, in settlement thereof, or paid by such person in satisfaction of any judgment in any such action, suit or proceeding against such person, provided that AMG shall have the right, at its own expense, to assume and defend the same. The foregoing right of indemnification shall not be available to a person to the extent that a final judgment or other final adjudication binding upon such person establishes that the acts or omissions of such person giving rise to the indemnification claim resulted from such person's bad faith, fraud or willful criminal act or omission. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under AMG's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any other power that AMG may have to indemnify such persons or hold them harmless.

Section 7.3. Communication by Administrative Committee and Investment Administrator. Decisions and directions of the Administrative Committee may be communicated to the Investment Administrator, the Trustee, a Participant, a Beneficiary, AMG or any other person who is to receive such decision or direction by a document signed by any one or more members of the Administrative Committee (or persons other than members) so authorized, and such decision or direction of the Administrative Committee may be relied upon by the recipient as being the decision of the Administrative Committee. The Administrative Committee may authorize one or more of its members, or a designee who is not a member, to sign on behalf of the entire Administrative Committee. Decisions and directions of the Investment Administrator may be communicated to the Administrative Committee, the Trustee, a Participant, a Beneficiary, AMG or any other person who is to receive such decision or direction by a document signed by such Investment Administrator.

Section 7.4. Investment Administrator. The Investment Administrator shall be the Investment Fiduciary, as described in the Trust Agreement, and shall direct the Trustee in respect of specific investments in the Affiliate Investments Accounts in order that the holdings in such Affiliate Investments Accounts readily may satisfy any requirement for payment of cash (a) to Participants upon vesting of such Affiliate Investments Accounts and (b) to AMG for satisfaction of any applicable withholding taxes in respect of such Affiliate Investments Accounts.



**SECTION VIII. AMENDMENT, TERMINATION, ETC.**

The Administrative Committee reserves the right at any time and from time to time to modify, alter, amend, suspend, discontinue and terminate the Plan or the Trust Agreement; provided that, no such modification, alteration, amendment, suspension, discontinuance or termination shall materially adversely affect, without the consent of the individual affected Participant, the rights of any Participant under this Plan with respect to contributions previously made, except that the Administrative Committee reserves to itself alone the right to (a) accelerate the vesting of Participants' Accounts and (b) make distributions to Participants upon the termination of the Plan. Notwithstanding the foregoing, no modification, alteration, amendment or termination of the Plan may be made which would cause or permit any part of the assets of the Trust to be used for, or diverted to, purposes other than for the exclusive benefit of Participants or their Beneficiaries, or which would cause any part of the assets of the Trust to revert to or become the property of AMG. Any modification, alteration or amendment to the Plan shall be in writing signed by the Chief Executive Officer of AMG or his designee.



**SECTION IX. MISCELLANEOUS**

Section 9.1. Designation of Beneficiaries. A Participant may designate, in accordance with procedures established by the Administrative Committee, a Beneficiary or Beneficiaries to receive all or part of the amounts payable hereunder in the event of such Participant's death. A designation of a Beneficiary may be replaced by a new designation or may be revoked by a Participant at any time in accordance with procedures established by the Administrative Committee. In the event of a Participant's death, the amounts payable hereunder with respect to which a designation of Beneficiary has been made shall be paid in accordance with the Plan to such designated Beneficiary or Beneficiaries. Any amounts payable upon death and not subject to such designation shall be distributed to the Participant's estate. If there is any question as to the legal right of any Beneficiary to receive payment of amounts hereunder, the amounts in question may be paid to the Participant's estate, in which event AMG shall have no further liability to anyone with respect to such amounts. A Beneficiary shall have no rights under the Plan other than the right, subject to the immediately preceding sentence, to receive such amounts, if any, as may be payable under this Section 9.1.

Section 9.2. Nonassignability. No rights granted to any Participant or any Beneficiary under the Plan (including any interest in the Accounts) may be sold, exchanged, transferred, assigned, pledged, hypothecated or otherwise disposed of (including through the use of any cash-settled instrument) (each such action being hereinafter referred to as an "assignment"), whether voluntarily or involuntarily, other than by will or by the laws of descent and distribution. Any assignment in violation of the provisions of this Section 9.2 shall be void. All the terms of this Plan shall be binding upon such permitted successors and assigns.

Section 9.3. Plan Creates No Employment Rights. Nothing in the Plan shall confer upon any Participant the right to continue in the employ of AMG or affect any right which AMG may have to terminate such Employment.

Section 9.4. Limit on Liability. No person shall have any right or interest in the Plan or the Trust other than as provided herein. The Trust assets shall under no circumstances be available to the creditors of AMG. All distributions under the Plan shall be paid or provided solely from the Trust assets, and AMG shall have no responsibility or liability to any Participant or Beneficiary relating to any assets (including Stock) contributed to the Trust. Any final distribution to any Participant or Beneficiary in accordance with the provisions of the Plan shall be in full satisfaction of all claims against the Trust, the Trustee, the Administrative Committee, the Investment Administrator, the Board, AMG and its employees with respect to the Plan or Trust.

Section 9.5. Arbitration. Any dispute, controversy or claim between AMG and any Participant arising out of or relating to or concerning the provisions of the Plan or the Trust shall be finally settled by arbitration in Boston, Massachusetts before the American Arbitration Association (the "AAA") in accordance with the commercial arbitration rules of the AAA. Prior to arbitration, all claims maintained by any Participant must first be submitted to the Administrative Committee in accordance with claim procedures determined by the



---

Administrative Committee in its sole discretion. This Section is subject to the provisions of Section 9.6.

Section 9.6. Choice of Forum.

(a) AMG AND EACH PARTICIPANT, AS A CONDITION TO SUCH PARTICIPANT'S PARTICIPATION IN THE PLAN, HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE CITY OF BOSTON, MASSACHUSETTS OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN THAT IS NOT OTHERWISE ARBITRATED OR RESOLVED ACCORDING TO THE PROVISIONS OF SECTION 9.5. This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. AMG and each Participant, as a condition to such Participant's participation in the Plan, acknowledge that the forum designated by this Section 9.6(a) has a reasonable relation to the Plan, and to the relationship between such Participant and AMG. Notwithstanding the foregoing, nothing herein shall preclude AMG from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of Sections 9.5 and 9.6.

(b) The agreement by AMG and each Participant as to forum is independent of the law that may be applied in the action, and AMG and each Participant, as a condition to such Participant's participation in the Plan, (i) agree to such forum even if the forum may under applicable law choose to apply non-forum law, (ii) hereby waive, to the fullest extent permitted by applicable law, any objection which AMG or such Participant now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in Section 9.6(a), (iii) undertake not to commence any action arising out of or relating to or concerning the Plan in any forum other than the forum described in this Section 9.6 and (iv) agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon AMG and each Participant.

(c) Each Participant, as a condition to such Participant's participation in the Plan, hereby irrevocably appoints the General Counsel of AMG as such Participant's agent for service of process in connection with any action or proceeding arising out of or relating to or concerning the Plan which is not arbitrated pursuant to the provisions of Section 9.5, who shall promptly advise such Participant of any such service of process.

(d) Each Participant hereby agrees, as a condition to such Participant's participation in the Plan, to keep confidential the existence of, and any information concerning, a dispute described in Section 9.5 or 9.6, except that a Participant may disclose information concerning such dispute to the arbitrator or court that is considering such dispute or to such Participant's legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute).



---

(e) Each Participant recognizes and agrees that prior to being selected by the Administrative Committee to participate in the Plan such Participant has no right to any benefits hereunder. Accordingly, in consideration of a Participant's selection to participate in the Plan, each Participant expressly waives any right to contest the amount of any contribution to the Plan, the terms of the Plan, any determination, action or omission hereunder by the Administrative Committee, AMG or the Board, or any amendment to the Plan (other than an amendment to which such Participant's consent is expressly required by Article VIII).

Section 9.7. Governing Law. ALL RIGHTS AND OBLIGATIONS UNDER THE PLAN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

Section 9.8. Taxes and Withholding.

(a) Upon a Participant's vesting in all or any portion of his or her Participant's Accounts, or in connection with any distribution or other event that gives rise to a federal or other governmental tax withholding obligation relating to the Plan (including, without limitation, FICA and Medicare tax), the Trustee shall satisfy such withholding obligation as provided herein. If the event giving rise to the withholding obligation involves a transfer of shares of Stock or other stock or securities, then the Trustee shall remit to AMG shares of Stock or, as applicable, other shares of stock or securities, having a Fair Market Value equal to the amount of tax to be withheld, or, at the discretion of the Participant, the Participant may pay such withholding obligation directly to AMG in cash. If the event giving rise to the withholding obligation involves the Affiliate Investments Account or Other Investments Account or distribution of income or capital gains of the Trust, then the Trustee shall take such actions as shall permit it to remit cash to AMG. For this purpose, Fair Market Value shall be determined as of the date on which the amount of tax to be withheld is determined (and any fractional share amount may be settled in cash).

(b) The Trustee may transfer to AMG any amounts (cash or shares of Stock or other securities) withheld or received from the Participant pursuant to Section 9.8(a). Any deduction of cash, shares of Stock or other securities from the Participant's Accounts by the Trustee pursuant to this Section 9.8 shall be treated as a distribution from the Trust to such Participant and an election by the Participant to have such shares of Stock or other securities applied to satisfy the withholding obligation.

(c) No Participant may make an election pursuant to section 83(b) of the Code with respect to his or her interest in the Trust, any shares of Stock or any other property held by the Trust.



---

Section 9.9. Consents and Legends. The vesting and distribution to a Participant of any shares of Stock or other stock or securities may be conditioned on the receipt, to the full satisfaction of the Administrative Committee, of (a) any and all listings, registrations or qualifications in respect thereof upon any securities exchange or under any federal, state or local law, or law, rule or regulation of a jurisdiction outside the United States, (b) any and all written agreements and representations by the Participant with respect to the disposition of shares of Stock or other stock or securities, or with respect to any other matter, which the Administrative Committee shall deem necessary or desirable to comply with the terms of any such listing, registration or qualification or to obtain an exemption from the requirement that any such listing, qualification or registration be made, (c) any and all other consents, clearances and approvals in respect of a plan action by any governmental or other regulatory body or any stock exchange or self-regulatory agency that the Administrative Committee may determine to be necessary or advisable and (d) any and all consents or authorizations required to comply with, or required to be obtained under, applicable local law or otherwise required by the Administrative Committee. Nothing herein shall require AMG to list, register or qualify the shares of Stock or other stock or securities on any securities exchange. AMG may affix to any stock certificate (or other document or evidence of ownership) representing shares of Stock or other stock or securities distributed under the Plan any legend that the Administrative Committee determines in its sole discretion to be necessary or advisable (including to reflect any restrictions to which a Participant may be subject under a separate agreement with AMG). AMG may advise the transfer agent to place a stop order against any legended shares of Stock or other stock or securities.

Section 9.10. Forfeiture and Repayment after Erroneous Vesting. If, following any date on which a Participant becomes vested in all or any portion of his or her Participant's Accounts (the "Erroneously Vested Portion"), the Administrative Committee determines that all terms and conditions of the Plan were not satisfied on the relevant vesting date, such Participant or former Participant shall cease to be vested in, and shall forfeit, such Erroneously Vested Portion, and the Trust shall be entitled to receive, and such Participant or former Participant shall be obligated to pay the Trust immediately upon demand therefor the Fair Market Value of any shares of Stock or interest in Affiliate Investments (determined as of the date of vesting) and the amount of any cash delivered in respect of any distribution of the Erroneously Vested Portion, without reduction for any shares of Stock or other securities or cash, applied to satisfy withholding tax or other obligations in respect of such erroneous vesting event.

Section 9.11. Severability; Entire Agreement. If any of the provisions of this Plan is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby; provided, that if any of the provisions of this Plan is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan contains the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral with respect to the subject matter hereof.



---

Section 9.12. Expenses. All expenses incurred by the Administrative Committee and the Trustee in connection with administering this Plan and the Trust shall be paid by AMG. All taxes imposed on the Trust related to income credited to or attributable to Trust assets shall be paid from such assets and charged against the Participant's Account to which the income is allocated as though it were payable directly to the Participant.

Section 9.13. Successors and Assigns. The terms of this Plan shall be binding upon and inure to the benefit of AMG and its successors.

Section 9.14. Plan Headings. The headings in this Plan are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

Section 9.15. Construction. In the construction of this Plan, the singular shall include the plural, and vice-versa, in all cases where such meanings would be appropriate.

IN WITNESS WHEREOF, and as evidence of the adoption of this Plan effective as of November 7, 2005 by AMG, it has caused the same to be signed by its duly authorized officer this 7th day of November, 2005.

AFFILIATED MANAGERS GROUP, INC.

By: /s/ John Kingston, III

Name: John Kingston, III

Title: Senior Vice President,
Secretary and General Counsel



---

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, Sean M. Healey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Affiliated Managers Group, Inc.;
2. Based on my knowledge, this Quarterly 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 Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly 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 Quarterly Report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 Quarterly Report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation;
   d) Disclosed in this Quarterly 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 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: November 9, 2005

/s/ SEAN M. HEALEY
Sean M. Healey
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

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 Quarterly 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 Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly 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 Quarterly Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 Quarterly Report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation;

   d) Disclosed in this Quarterly 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 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: November 9, 2005

/s/ DARRELL W. CRATE
Darrell W. Crate
Executive Vice President,
Chief Financial Officer and Treasurer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Affiliated Managers Group, Inc. (the "Company") for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Sean M. Healey, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2005

By: /s/ SEAN M. HEALEY
Sean M. Healey
President and Chief Executive Officer

**Exhibit 32.2**

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

In connection with the Quarterly Report on Form 10-Q of Affiliated Managers Group, Inc. (the "Company") for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Darrell W. Crate, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| Date: November 9, 2005 | By: /s/ DARRELL W. CRATE |
| | Darrell W. Crate<br>Executive Vice President,<br>Chief Financial Officer and Treasurer |