

AFFILIATED MANAGERS GROUP INC  
Form 10-Q  
November 09, 2006

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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### FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-13459

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### Affiliated Managers Group, Inc.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**04-3218510**

(IRS Employer Identification Number)

**600 Hale Street, Prides Crossing, Massachusetts 01965**

(Address of principal executive offices)

**(617) 747-3300**

(Registrant's telephone number, including area code)

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

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

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Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 30,174,824 shares of the registrant's common stock outstanding as of November 3, 2006.

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## PART I FINANCIAL INFORMATION

## Item 1. 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,	
	2005	2006	2005	2006
Revenue	\$ 234,126	\$ 280,440	\$ 643,995	\$ 841,590
Operating expenses:				
Compensation and related expenses	95,474	122,841	259,545	358,029
Selling, general and administrative	44,009	40,946	115,285	129,705
Amortization of intangible assets	6,525	6,839	17,998	20,533
Depreciation and other amortization	2,035	2,239	5,052	6,386
Other operating expenses	5,314	5,516	15,071	16,698
	153,357	178,381	412,951	531,351
Operating income	80,769	102,059	231,044	310,239
Non-operating (income) and expenses:				
Income from equity method investments	(4,244 )	(7,464 )	(10,249 )	(19,530 )
Investment and other income	(2,717 )	(3,623 )	(5,784 )	(8,994 )
Investment (income) loss from Affiliate investments in partnerships	(214 )	4,959	(166 )	3,451
Interest expense	10,071	16,250	26,682	42,834
	2,896	10,122	10,483	17,761
Income before minority interest and taxes	77,873	91,937	220,561	292,478
Minority interest	(32,619 )	(43,658 )	(92,439 )	(135,626 )
Minority interest in Affiliate investments in partnerships		4,334		3,330
Income before income taxes	45,254	52,613	128,122	160,182
Income taxes current	8,762	12,168	23,900	37,412
Income taxes intangible-related deferred	7,058	6,991	21,918	19,793
Income taxes other deferred	924	308	1,999	654
Net Income	\$ 28,510	\$ 33,146	\$ 80,305	\$ 102,323
Earnings per share basic	\$ 0.84	\$ 1.09	\$ 2.39	\$ 3.22
Earnings per share diluted(1)	\$ 0.67	\$ 0.87	\$ 1.91	\$ 2.53
Average shares outstanding basic	33,926,047	30,371,364	33,611,937	31,746,855
Average shares outstanding diluted(1)	44,908,036	44,399,722	44,465,513	45,298,012
Supplemental disclosure of total comprehensive income:				
Net Income	\$ 28,510	\$ 33,146	\$ 80,305	\$ 102,323
Other comprehensive income (loss)	15,003	(1,206 )	14,851	11,788
Total comprehensive income	\$ 43,513	\$ 31,940	\$ 95,156	\$ 114,111

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(1) See Note 7 for the calculation of diluted earnings per share.

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

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**AFFILIATED MANAGERS GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)  
(unaudited)

	December 31, 2005	September 30, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 140,423	\$ 222,062
Investment advisory fees receivable	148,850	160,442
Affiliate investments in partnerships	5,079	107,989
Prepaid expenses and other current assets	48,529	40,039
Total current assets	342,881	530,532
Fixed assets, net	50,592	59,862
Equity investments in Affiliates	301,476	285,806
Acquired client relationships, net	483,692	470,322
Goodwill	1,093,249	1,113,286
Other assets	49,746	71,822
Total assets	\$ 2,321,636	\$ 2,531,630
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 176,711	\$ 241,026
Senior debt	65,750	65,750
Payables to related party	14,127	8,595
Total current liabilities	256,588	315,371
Senior debt	175,500	216,000
Senior convertible securities	424,232	413,246
Mandatory convertible securities	300,000	300,000
Junior convertible trust preferred securities		300,000
Deferred income taxes	182,623	208,351
Other long-term liabilities	20,149	14,244
Total liabilities	1,359,092	1,767,212
Commitments and contingencies (Note 8)		
Minority interest	145,163	126,704
Minority interest in Affiliate investments in partnerships		102,530
Stockholders' equity:		
Common stock	390	390
Additional paid-in capital	593,090	605,879
Accumulated other comprehensive income	16,756	28,544
Retained earnings	503,188	605,511
	1,113,424	1,240,324
Less: treasury stock, at cost	(296,043)	(705,140)
Total stockholders' equity	817,381	535,184
Total liabilities and stockholders' equity	\$ 2,321,636	\$ 2,531,630

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,		For the Nine Months Ended September 30,	
	2005	2006	2005	2006
<b>Cash flow from operating activities:</b>				
Net Income	\$ 28,510	\$ 33,146	\$ 80,305	\$ 102,323
Adjustments to reconcile Net Income to net cash flow from operating activities:				
Amortization of intangible assets	6,525	6,839	17,998	20,533
Amortization of issuance costs	765	732	2,275	2,122
Depreciation and other amortization	2,035	2,239	5,052	6,386
Deferred income tax provision	7,982	7,299	23,917	20,447
Accretion of interest	474	589	1,422	1,771
Income from equity method investments, net of amortization	(4,244 )	(7,464 )	(10,249 )	(19,530 )
Distributions received from equity method investments	4,251	8,501	10,476	37,215
Tax benefit from exercise of stock options	5,362	1,447	11,103	4,881
Other adjustments	(1,384 )	1,434	(2,253 )	3,304
Changes in assets and liabilities:				
Increase in investment advisory fees receivable	(11,622 )	(12,735 )	(31,972 )	(13,375 )
Decrease in Affiliate investments in partnerships		1,891		2,865
Decrease in prepaids and other current assets	4,195	2,428	4,058	7,846
(Increase) decrease in other assets	(2,144 )	231	(1,897 )	1,301
Increase in accounts payable, accrued liabilities and other long-term liabilities	21,873	42,495	25,699	62,851
Increase (decrease) in minority interest	12,701	13,773	648	(9,819 )
Cash flow from operating activities	75,279	102,845	136,582	231,121
<b>Cash flow used in investing activities:</b>				
Cost of investments in Affiliates, net of cash acquired	(62,375 )	(3,524 )	(80,766 )	(20,551 )
Purchase of fixed assets	(4,112 )	(3,026 )		