AFFILIATED MANAGERS GROUP INC
Form 10-Q
November 06, 2012

QuickLinks -- Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 51,801,413 shares of the registrant's common stock outstanding on November 2, 2012.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2012	2011	2012
Revenue	$ 413.8	$ 467.3	$ 1,302.4	$ 1,314.5
Operating expenses:				
Compensation and related expenses	168.9	196.8	544.9	565.9
Selling, general and administrative	83.5	93.9	261.6	267.7
Intangible amortization and impairments	22.1	24.0	66.3	169.1
Depreciation and other amortization	4.0	3.5	11.6	10.6
Other operating expenses	9.3	9.4	27.1	27.7
	287.8	327.6	911.5	1,041.0
Operating income	126.0	139.7	390.9	273.5
Non-operating (income) and expenses:				
Investment and other (income) loss	9.5	(6.9)	6.8	(20.3)
Income from equity method investments	(9.8)	(19.4)	(40.1)	(47.3)
Interest expense	18.1	21.8	55.6	58.8
Imputed interest expense and contingent payment arrangements	8.3	6.7	24.9	(35.7)
	26.1	2.2	47.2	(44.5)
Income before income taxes	99.9	137.5	343.7	318.0
Income taxes	19.8	19.4	73.2	46.0
Net income	80.1	118.1	270.5	272.0
Net income (non-controlling interests)	(40.0)	(63.2)	(145.9)	(173.1)
Net income (controlling interest)	$ 40.1	$ 54.9	$ 124.6	$ 98.9
Average shares outstanding basic	51.9	51.7	51.9	51.6
Average shares outstanding diluted	53.0	53.0	53.2	52.9
Earnings per share basic	$ 0.77	$ 1.06	$ 2.40	$ 1.92
Earnings per share diluted	$ 0.76	$ 1.04	$ 2.34	$ 1.87

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	**2012**	**2011**	**2012**
Net income	$ 80.1	$ 118.1	$ 270.5	$ 272.0
Other comprehensive income (loss):				
Foreign currency translation adjustment	(34.6)	15.2	(18.2)	19.7
Change in net realized and unrealized loss on derivative securities, net of tax	(6.3)	(0.3)	(7.1)	(0.9)
Change in net unrealized gain (loss) on investment securities, net of tax	(40.5)	1.2	(46.2)	(1.1)
Other comprehensive income (loss)	(81.4)	16.1	(71.5)	17.7
Comprehensive income	(1.3)	134.2	199.0	289.7
Comprehensive income (non-controlling interests)	(40.0)	(63.4)	(145.9)	(174.8)
Comprehensive income (loss) (controlling interest)	$ (41.3)	$ 70.8	$ 53.1	$ 114.9

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in millions)

(unaudited)

	December 31, 2011	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 449.5	$ 372.6
Investment advisory fees receivable	214.9	243.8
Investments in marketable securities	100.4	109.9
Unsettled fund share receivables	34.5	50.5
Prepaid expenses and other current assets	77.1	61.3
Total current assets	876.4	838.1
Fixed assets, net	69.1	72.4
Equity investments in Affiliates	615.8	935.8
Acquired client relationships, net	1,321.1	1,615.3
Goodwill	2,117.3	2,353.3
Other assets	219.2	215.9
Total assets	$ 5,218.9	$ 6,030.8
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 343.6	$ 309.7
Unsettled fund share payables	40.8	52.5
Payables to related party	33.2	10.7
Total current liabilities	417.6	372.9
Senior bank debt	250.0	445.0
Senior notes		200.0
Senior convertible securities	435.6	446.5
Junior convertible trust preferred securities	512.6	514.8
Deferred income taxes	506.0	521.4
Other long-term liabilities	145.7	162.4
Total liabilities	2,267.5	2,663.0
Redeemable non-controlling interests	451.8	513.1
Equity:		
Common stock	0.5	0.5
Additional paid-in capital	927.5	855.3
Accumulated other comprehensive income	50.0	66.0
Retained earnings	1,176.7	1,275.6
	2,154.7	2,197.4
Less treasury stock, at cost	(288.7)	(266.4)
Total stockholders' equity	1,866.0	1,931.0
Non-controlling interests	633.6	923.7

Total equity		2,499.6		2,854.7
Total liabilities and equity	$	5,218.9	$	6,030.8

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions)

(unaudited)

	Total Stockholders' Equity						
	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock at Cost	Non-controlling interests	Total Equity
December 31, 2011	$ 0.5	$ 927.5	$ 50.0	$ 1,176.7	$ (288.7)	$ 633.6	$ 2,499.6
Stock issued under option and other incentive plans		(37.5)			83.2		45.7
Tax benefit of option exercises		13.0					13.0
Changes in Affiliate equity value		(72.6)				14.8	(57.8)
Share-based payment arrangements		24.9					24.9
Distributions to non-controlling interests						(140.1)	(140.1)
Investments in Affiliates						240.6	240.6
Repurchase of common shares					(60.9)		(60.9)
Net income				98.9		173.1	272.0
Other comprehensive income			16.0			1.7	17.7
September 30, 2012	$ 0.5	$ 855.3	$ 66.0	$ 1,275.6	$ (266.4)	$ 923.7	$ 2,854.7

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

AFFILIATED MANAGERS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	**2012**	**2011**	**2012**
Cash flow from operating activities:				
Net income	$ 80.1	$ 118.1	$ 270.5	$ 272.0
Adjustments to reconcile Net income to net cash flow from operating activities:				
Intangible amortization and impairments	22.1	24.0	66.3	169.1
Amortization of issuance costs	1.8	2.0	6.2	5.7
Depreciation and other amortization	4.0	3.5	11.6	10.6
Deferred income tax provision	14.8	7.8	31.8	5.8
Imputed interest expense and contingent payment arrangements	8.3	6.7	24.9	(35.7)
Income from equity method investments, net of amortization	(9.8)	(19.4)	(40.1)	(47.3)
Distributions received from equity method investments	27.0	20.8	110.5	79.4
Tax benefit from exercise of stock options		0.7	0.8	1.4
Share-based compensation	7.3	8.0	19.3	24.1
Affiliate equity expense	1.9	2.3	9.1	9.4
Other adjustments	9.0	1.9	19.5	1.3
Changes in assets and liabilities:				
(Increase) decrease in investment advisory fees receivable	37.1	2.4	18.2	(21.3)
Increase in prepaids and other current assets	(6.2)	(3.8)	(9.2)	(12.9)
(Increase) decrease in other assets	0.6	(1.6)	(1.7)	(2.5)
(Increase) decrease in unsettled fund shares receivable	32.0	(5.6)	(16.7)	(15.3)
Increase (decrease) in unsettled fund shares payable	(24.5)	4.4	7.0	10.7
Increase (decrease) in accounts payable, accrued liabilities and other long-term liabilities	36.7	38.9	21.9	(7.4)
Cash flow from operating activities	242.2	211.1	549.9	447.1
Cash flow used in investing activities:				
Investments in Affiliates		(350.0)	(13.3)	(755.3)
Purchase of fixed assets	(3.9)	(4.9)	(8.3)	(9.9)
Purchase of investment securities	(39.4)	(2.7)	(48.4)	(13.8)
Sale of investment securities	0.5	3.6	10.9	31.1
Cash flow used in investing activities	(42.8)	(354.0)	(59.1)	(747.9)
Cash flow from (used in) financing activities:				
Borrowings of senior bank debt		360.0	110.0	555.0
Repayments of senior bank debt	(85.0)	(360.0)	(360.0)	(360.0)
Issuance of senior notes		200.0		200.0
Issuance of common stock	0.3	23.3	21.2	45.7
Repurchase of common stock	(48.0)		(48.0)	(60.9)
Issuance costs	(0.8)	(6.0)	(8.5)	(6.0)
Excess tax benefit from exercise of stock options		6.9	4.9	11.6
Settlement of treasury lock			4.0	
Note payments	(8.4)	(1.8)	(80.7)	(2.1)
Distributions to non-controlling interests	(34.6)	(18.0)	(115.6)	(137.7)
Affiliate equity issuances and repurchases	(6.8)	(2.2)	(6.7)	(25.1)
Cash flow from (used in) financing activities	(183.3)	202.2	(479.4)	220.5
Effect of foreign exchange rate changes on cash and cash equivalents	(4.0)	2.3	(1.4)	3.4
Net increase (decrease) in cash and cash equivalents	12.1	61.6	10.0	(76.9)
Cash and cash equivalents at beginning of period	311.2	311.0	313.3	449.5
Cash and cash equivalents at end of period	$ 323.3	$ 372.6	$ 323.3	$ 372.6

Supplemental disclosure of non-cash financing activities:				
Notes received for Affiliate equity sales	$	$	$ 11.6	$ 3.0
Payables recorded for Affiliate equity purchases	4.9	0.9	17.8	14.5
Payables recorded under contingent payment arrangements	1.4		1.4	24.8

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. ("AMG" or the "Company") 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 considered necessary for a fair statement of the results have been included. All intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for any other period or for the full year. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 includes additional information about AMG, its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

All dollar amounts in these notes, except per share data in the text and tables herein, are stated in millions unless otherwise indicated.

2. Senior Bank Debt

The Company has a $1,075.0 million senior unsecured credit facility (the "credit facility"), consisting of a $825.0 million revolving credit facility (the "revolver") and a $250.0 million term loan (the "term loan") and pays interest on any outstanding obligations at specified rates (based either on the LIBOR rate or the prime rate as in effect from time to time). A portion of the revolver ($30.0 million) matures in January 2015 with the balance of $795.0 million and the term loan maturing in November 2016. Subject to certain conditions, the Company may increase the revolver and the term loan by up to $75.0 million and $250.0 million, respectively.

The credit facility is unsecured and contains financial covenants with respect to leverage and interest coverage, as well as customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends, asset dispositions and fundamental corporate changes.

As of December 31, 2011 and September 30, 2012, the Company had outstanding borrowings of $250.0 million and $445.0 million, respectively. As further described in Note 14, the Company has entered into interest rate swap contracts to exchange a fixed rate for the variable rate on a portion of its credit facility.

3. Senior Notes

As of September 30, 2012 the Company had $200.0 million aggregate principal amount of 6.375% Senior Notes due 2042 (the "2042 Senior Notes"). The unsecured 2042 Senior Notes pay interest quarterly and may be redeemed by the Company at any time, on or after August 15, 2017. The 2042 Senior Notes' indenture includes customary provisions regarding events of default.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In October 2012, the Company sold $140.0 million aggregate principal amount of 5.25% Senior Notes due 2022 (the "2022 Senior Notes"). The unsecured 2022 Senior Notes pay interest quarterly and may be redeemed at any time, on or after October 15, 2015. The 2022 Senior Notes' indenture includes customary provisions regarding events of default.

The Company used the net proceeds from both the 2042 Senior Notes and the 2022 Senior Notes to repay outstanding indebtedness under its revolver.

4. Convertible Securities

At September 30, 2012, the Company has one senior convertible security outstanding ("2008 senior convertible notes") and two junior convertible trust preferred securities outstanding, one issued in 2006 (the "2006 junior convertible trust preferred securities") and a second issued in 2007 (the "2007 junior convertible trust preferred securities"). The carrying values of the Company's convertible securities are as follows:

	December 31, 2011		September 30, 2012	
	Carrying Value	Principal amount at maturity	Carrying Value	Principal amount at maturity
Senior convertible securities:				
2008 senior convertible notes[1]	$ 435.6	$ 460.0	$ 446.5	$ 460.0
Junior convertible trust preferred securities:				
2007 junior convertible trust preferred securities[1]	$ 297.8	$ 430.8	$ 299.1	$ 430.8
2006 junior convertible trust preferred securities[1]	214.8	300.0	215.7	300.0
Total junior convertible securities	$ 512.6	$ 730.8	$ 514.8	$ 730.8

(1) Carrying value is accreted to the principal amount at maturity over an expected life of five years for the 2008 senior convertible notes and 30 years for each of the junior convertible trust preferred securities.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The principal terms of these securities are summarized below.

	2008 Senior Convertible Notes(1)	2007 Junior Convertible Trust Preferred Securities(2)	2006 Junior Convertible Trust Preferred Securities(3)
Issue date	August 2008	October 2007	April 2006
Maturity date	August 2038	October 2037	April 2036
Next potential put date	August 2013	N/A	N/A
Denomination	$ 1,000	$ 50	$ 50
Current conversion rate	7.959	0.250	0.333
Current conversion price	$ 125.65	$ 200.00	$ 150.00
Stated coupon	3.95%	5.15%	5.10%
Coupon frequency	Semi-annually	Quarterly	Quarterly
Tax deduction rate(4)	9.38%	8.00%	7.50%

(1) The Company may redeem the notes (subject to the holders' rights to convert) at any time on or after August 15, 2013. The holders may require the Company to repurchase the notes in August of 2013, 2018, 2023, 2028 and 2033. Should either of these events occur, the Company intends to satisfy its obligations with borrowings under its credit facility.

(2) The Company may redeem the 2007 junior convertible trust preferred securities if the closing price of the Company's common stock exceeds $260 per share for a specified period of time.

(3) The Company may redeem the 2006 junior convertible trust preferred securities if the closing price of the Company's common stock exceeds $195 per share for a specified period of time.

(4) These convertible securities are considered contingent payment debt instruments under federal income tax regulations, which require the Company to deduct interest in an amount greater than its reported Interest expense. These deductions will result in deferred tax liabilities of approximately $24.5 million in 2012. These deferred tax liabilities will be reclassified directly to stockholders' equity if the Company's common stock is trading above certain thresholds at the time of the conversion of the securities.

5. Forward Equity Sale Agreements

In August 2012, the Company amended its forward equity agreement to increase the shares of common stock it may sell to an aggregate of $400.0 million. During the quarter ended September 30, 2012, the Company entered into contracts to sell a notional amount of $136.8 million at an average share price of $121.19. In October 2012, the Company entered into contracts to sell an additional notional amount of $10.4 million at an average share price of $123.88. The Company has the ability to settle the contracts either by delivering shares of common stock and receiving cash or net settling for cash or shares of common stock. All contracts remain outstanding.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Taxes

The consolidated income tax provision includes taxes attributable to the controlling interest and taxes attributable to non-controlling interests as follows:

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012
Controlling Interests:				
Current tax	$ 1.9	$ 8.8	$ 31.9	$ 31.1
Intangible related deferred taxes	10.4	11.7	36.2	0.1
Other deferred taxes	6.2	(1.2)	(1.6)	4.9
Total controlling interests	18.5	19.3	66.5	36.1
Non-Controlling Interests:				
Current tax	3.1	2.8	9.5	9.1
Deferred taxes	(1.8)	(2.7)	(2.8)	0.8
Total non-controlling interests	1.3	0.1	6.7	9.9
Provision for income taxes	$ 19.8	$ 19.4	$ 73.2	$ 46.0
Income before income taxes (controlling interest)	$ 58.6	$ 74.2	$ 191.1	$ 135.0
Effective tax rate attributable to controlling interests[(1)]	31.6%	26.0%	34.8%	26.7%

(1) Taxes attributable to the controlling interest divided by Income before income taxes (controlling interest).

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

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012
Current:				
Federal	$ (7.6)	$ 0.8	$ 5.6	$ 3.2
State	1.6	3.0	6.5	8.1
Foreign	11.0	7.8	29.3	28.9
Total current	5.0	11.6	41.4	40.2
Deferred:				
Federal	17.9	15.5	38.4	13.2
State	0.5	1.6	1.7	1.8
Foreign	(3.6)	(9.2)	(8.3)	(9.2)
Total deferred	14.8	7.9	31.8	5.8
Provision for income taxes	$ 19.8	$ 19.4	$ 73.2	$ 46.0

During the three and nine months ended September 30, 2012, the Company recognized a deferred tax benefit of $7.2 million ($4.8 million attributable to the controlling interest) from the revaluation of its deferred taxes as a result of a reduction of corporate tax rates in the United Kingdom and reduced its deferred tax valuation allowance by $3.1 million and $8.3 million, respectively, primarily related to indirect tax benefits from foreign tax positions.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31, 2011	September 30, 2012
Deferred Tax Assets		
State net operating loss carryforwards	$ 26.5	$ 25.6
Foreign tax credit carryforwards	15.1	13.2
Deferred compensation	17.5	21.5
Tax benefit of uncertain tax positions	11.6	17.3
Accrued expenses	11.6	4.8
Capital loss carryforwards	1.5	1.6
Total deferred tax assets	83.8	84.0
Valuation allowance	(35.6)	(27.3)
Deferred tax assets, net of valuation allowance	48.2	56.7
Deferred Tax Liabilities		
Intangible asset amortization	(247.1)	$ (263.7)
Convertible securities interest	(171.1)	(184.5)
Non-deductible intangible amortization	(127.2)	(121.7)
Deferred revenue	(5.6)	(5.3)
Other	(3.2)	(2.9)
Total deferred tax liabilities	(554.2)	(578.1)
Net deferred tax liability	$ (506.0)	$ (521.4)

Deferred tax liabilities are primarily the result of tax deductions for the Company's intangible assets and convertible securities. The Company amortizes most of its intangible assets for tax purposes only, reducing its tax basis below its carrying value for financial statement purposes and generating deferred taxes each reporting period. The Company's 2008 senior convertible notes and junior convertible trust preferred securities also generate deferred tax liabilities because the Company's tax deductions are higher than the interest expense recorded for financial statement purposes.

At September 30, 2012, the Company has state net operating loss carryforwards that expire over a 15-year period beginning in 2012. The Company also has foreign tax credit carryforwards that expire over a 10-year period beginning in 2012. The valuation allowances at December 31, 2011 and September 30, 2012 were principally related to the Company's projections of taxable income prior to the expiration of these state and federal carryforwards.

As of September 30, 2012 the Company carried a liability for uncertain tax positions of $27.9 million, including $2.4 million for interest and related charges and $16.2 million for foreign positions that would generate tax benefits in the United States, if settled. The Company anticipates this liability will decrease by approximately $5.0 million in the fourth quarter through the recognition of tax benefits from the transfer of interests in an Affiliate. The Company does not anticipate any other significant changes in this liability over the next twelve months.

The Company periodically has tax examinations in the United States and foreign jurisdictions. Examination outcomes, and any related settlements, are subject to significant uncertainty. The completion of examinations may result in the payment of additional taxes and/or the recognition of tax benefits.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Earnings Per Share

The calculation of basic earnings per share is based on the weighted average number of shares of the Company's common stock outstanding during the period. Diluted earnings per share is similar to basic earnings per share, but adjusts for the dilutive 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 available to common stockholders.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2012	2011	2012
Numerator				
Net income (controlling interest), as adjusted	$ 40.1	$ 54.9	$ 124.6	$ 98.9
Denominator				
Average shares outstanding basic	51.9	51.7	51.9	51.6
Effect of dilutive instruments:				
Stock options and other awards	1.1	1.3	1.3	1.3
Average shares outstanding diluted	53.0	53.0	53.2	52.9

As more fully discussed in Note 4, the Company had convertible securities outstanding during the periods presented and is required to apply the if-converted method to these securities in its calculation of diluted earnings per share. Under the if-converted method, shares that are issuable upon conversion are deemed outstanding, regardless of whether the securities are contractually convertible into the Company's common stock at that time. For this calculation, the interest expense (net of tax) attributable to these dilutive securities is added back to Net income (controlling interest), reflecting the assumption that the securities have been converted. Issuable shares for these securities and related interest expense are excluded from the calculation if an assumed conversion would be anti-dilutive to diluted earnings per share.

During the nine months ended September 30, 2012, the Company repurchased approximately 0.6 million shares of common stock under the share repurchase programs approved by the Company's Board of Directors. No shares were repurchased during the three months ended September 30, 2012.

The diluted earnings per share calculations in the table above exclude the anti-dilutive effect of the following shares:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2012	2011	2012
Stock options and other awards	1.2	0.6	1.2	0.6
Senior convertible securities	3.7	3.7	3.7	3.7
Junior convertible trust preferred securities	4.2	4.2	4.2	4.2
Forward equity sales		0.3		0.3

As discussed further in Note 19, the Company may settle portions of its Affiliate equity purchases in shares of its common stock. Because it is the Company's intent to settle these potential repurchases in cash, the calculation of diluted earnings per share excludes any potential dilutive effect from possible share settlements.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. 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 the amount of the liability 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 Company.

Certain Affiliates operate under regulatory authorities which require that they maintain minimum financial or capital requirements. Management is not aware of any significant violations of such financial requirements occurring during the period.

In connection with its investment in Pantheon Ventures, the Company has committed to co-invest in certain investment partnerships where it serves as the general partner. As of September 30, 2012, these commitments totaled approximately $75.1 million and may be called in future periods. The prior owner of Pantheon Ventures is contractually obligated to reimburse the Company for $39.5 million of these commitments if they are called.

Under past acquisition agreements, the Company is contingently liable, upon achievement of specified financial targets, to make payments of up to $755.5 million through 2017. As of September 30, 2012, the Company expects to make payments of $279.5 million to settle these contingent obligations (including $182.6 million related to the Company's equity method investments). The net present value of the expected payments for consolidated Affiliates totals $69.2 million as of September 30, 2012. The Company expects to make $85.4 million of payments in the fourth quarter of 2012. During the first half of 2012, the Company recognized a gain of $57.3 million ($39.6 million attributable to the controlling interest) as a result of changes to expected payments for consolidated Affiliates. This gain has been classified within Imputed interest expense and contingent payment arrangements in the Consolidated Statements of Income.

9. Investments

Investments in Marketable Securities

Investment in marketable securities at December 31, 2011 and September 30, 2012 were $100.4 million and $109.9 million, respectively. These investments are comprised of the Company's investments in Value Partners Group Limited ("Value Partners"), a publicly-traded asset management firm based in Hong Kong, and investments held by Affiliates.

Available-for-Sale Investments

The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as available-for-sale at December 31, 2011 and September 30, 2012:

December 31, 2011

		Gross Unrealized		
	Cost	**Gains**	**Losses**	**Fair Value**
Equity securities	$ 97.6	$ 1.4	$ (12.7)	$ 86.3

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 101.1	$ 1.6	$ (13.9)	$ 88.8

As of September 30, 2012, the Company has invested $67.1 million in Value Partners, representing 7.8% of the outstanding common stock. In the second quarter of 2012, the investment in Value Partners declined, resulting in an unrealized loss. The Company intends to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value.

The following is a summary of the Company's realized gains and losses on investments classified as available-for-sale:

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012
Gains	$	$ 0.1	$ 0.2	$ 0.1
Losses				
Net realized gains	$	$ 0.1	$ 0.2	$ 0.1

Trading Securities

The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as trading securities at December 31, 2011 and September 30, 2012:

December 31, 2011

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 13.5	$ 0.9	$ (0.3)	$ 14.1

September 30, 2012

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 11.4	$ 10.8	$ (1.1)	$ 21.1

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the Company's realized gains and losses on investments classified as trading securities:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	**2012**	**2011**	**2012**
Gains	$ 0.1	$ 0.2	$ 0.5	$ 0.8
Losses		0.0	(0.3)	(0.3)
Net realized gains	$ 0.1	$ 0.2	$ 0.2	$ 0.5

Other Investments

Other investments consist of investments in funds advised by Affiliates. As of December 31, 2011 and September 30, 2012, the Company's other investments were $145.3 million and $153.6 million, respectively. These assets are reported within Prepaid expenses and other current assets ($31.2 million and $23.3 million at December 31, 2011 and September 30, 2012, respectively) and Other assets ($114.1 million and $130.3 million at December 31, 2011 and September 30, 2012, respectively) in the Consolidated Balance Sheets. The income or loss related to these investments is classified within Investment and other income in the Consolidated Statements of Income.

10. Fair Value Measurements

The Company determines the fair value of certain investment securities and other financial and nonfinancial assets and liabilities. Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the principal market for the asset or liability, or absent a principal market, the most advantageous market for the asset or liability, utilizing a hierarchy of three different valuation techniques:

Level 1 Unadjusted quoted market prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs, or significant value drivers, are observable; and

Level 3 Prices reflect the Company's own assumptions concerning unobservable inputs to the valuation model. These inputs require significant management judgment and reflect the Company's assumptions that market participants would use in pricing the asset or liability.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis:

	December 31, 2011	Fair Value Measurements		
		Level 1	Level 2	Level 3
Financial Assets				
Cash equivalents	$ 23.2	$ 23.2	$	$
Investments in marketable securities[1]				
Trading securities	14.1	14.1		
Available-for-sale securities	86.3	86.3		
Other investments[2]	145.3	31.1	10.8	103.4
Financial Liabilities				
Contingent payment arrangements[3]	$ 87.1	$	$	$ 87.1
Obligations to related parties[4]	92.0			92.0
Interest rate derivatives[5]	2.9		2.9	

	September 30, 2012	Fair Value Measurements		
		Level 1	Level 2	Level 3
Financial Assets				
Cash equivalents	$ 18.7	$ 18.7	$	$
Investments in marketable securities[1]				
Trading securities	21.1	21.1		
Available-for-sale securities	88.8	88.8		
Other investments[2]	153.6	18.2	18.7	116.7
Financial Liabilities				
Contingent payment arrangements[3]	$ 66.0	$	$	$ 66.0
Obligations to related parties[4]	75.8			75.8
Interest rate derivatives[5]	4.3		4.3	

(1) Principally investments in equity securities.

(2) Other investments are reported within Prepaid expenses and other current assets and Other assets.

(3) Net present value of expected payments under contingent payment arrangements are reported in Accounts payable and accrued liabilities and Other long-term liabilities.

(4) Obligations to related parties are presented within Payables to related party and Other long-term liabilities.

(5) Interest rate derivatives are presented within Other long-term liabilities.

The following is a description of the significant assets and liabilities measured at fair value and the fair value methodologies used.

Cash equivalents consist primarily of highly liquid investments in money market funds. Cash investments in actively traded money market funds are classified as Level 1.

Investments in marketable securities consist primarily of investments in publicly traded securities and in funds advised by Affiliates which are valued using net asset value ("NAV"). Publicly traded securities and investments in actively traded funds that calculate daily NAVs are classified as Level 1.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other investments are valued using NAV. Investments in actively traded funds that calculate daily NAVs are classified as Level 1. Investments in funds that permit redemptions monthly or quarterly are classified as Level 2. Investments in funds that are subject to longer redemption restrictions are classified as Level 3. The fair value of Level 3 assets is determined using NAV one quarter in arrears (adjusted for current period calls and distributions).

Interest rate derivatives include interest rate swaps. The fair value of these assets is determined by model-derived valuations in which all significant inputs were observable in active markets.

Contingent payment arrangements represent the present value of the expected future settlement of contingent payment arrangements related to the Company's investments in Affiliates. The significant unobservable inputs used in the fair value measurement of these obligations are growth and discount rates. Increases in the growth rate would result in a higher obligation while an increase in the discount rate would result in a lower obligation.

Obligations to related parties include agreements to repurchase Affiliate equity and liabilities offsetting certain investments which are held by the Company but economically attributable to a related party. The significant unobservable inputs used in the fair value measurement of the agreements to repurchase Affiliate equity are growth and discount rates. Increases in the growth rate would result in a higher obligation while an increase in the discount rate would result in a lower obligation. The liability to a related party is measured based upon certain investments held by the Company, the fair value of which is determined using NAV.

The following table presents certain quantitative information about the significant unobservable inputs used in valuing our Level 3 financial liabilities:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at September 30, 2012	**Valuation Techniques**	**Unobservable Input**	**Range**
Contingent payment arrangements	$ 66.0	Discounted cash flow	Growth rates	2.0% - 10.0%
			Discount rates	15.0% - 18.0%
Affiliate equity repurchase obligations	9.8	Discounted cash flow	Growth rates	(10.0%) - 17.0%
			Discount rates	17.5% - 24.0%

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in Level 3 financial assets and financial liabilities for the three and nine months ended September 30, 2011 and 2012:

Level 3 Financial Assets and Financial Liabilities at Fair Value

Three Months Ended September 30, 2011	Balance, beginning of period	Net realized gains/losses	Net unrealized gains/losses relating to instruments still held at the reporting date	Purchases and issuances	Settlements and reductions	Net transfers in and/or out of Level 3	Balance, end of period
Other investments	$ 102.0	$ (0.3)(1)	$ 3.5(1)	$ 4.2	$ (2.1)	$	$ 107.3
Contingent payment arrangements	85.3		2.0(2)				87.3
Obligations to related parties	71.2	0.8(3)	(0.4)(3)	8.5	(8.5)		71.6

Level 3 Financial Assets and Financial Liabilities at Fair Value

Three Months Ended September 30, 2012	Balance, beginning of period	Net realized gains/losses	Net unrealized gains/losses relating to instruments still held at the reporting date	Purchases and issuances	Settlements and reductions	Net transfers in and/or out of Level 3	Balance, end of period
Other investments	$ 113.0	$ (0.1)(1)	$ 1.6(1)	$ 3.5	$ (1.3)	$	$ 116.7
Contingent payment arrangements	62.5		3.5(2)				66.0
Obligations to related parties	79.5	0.5(3)	0.2(3)	1.7	(6.1)		75.8

Level 3 Financial Assets and Financial Liabilities at Fair Value

Nine Months Ended September 30, 2011	Balance, beginning of period	Net realized gains/losses	Net unrealized gains/losses relating to instruments still held at the reporting date	Purchases and issuances	Settlements and reductions	Net transfers in and/or out of Level 3	Balance, end of period
Other investments	$ 85.8	$ 0.7(1)	$ 14.0(1)	$ 12.8	$ (6.0)	$	$ 107.3
Contingent payment arrangements	77.6		11.4(2)		(1.7)		87.3
Obligations to related parties	79.6	1.4(3)	3.2(3)	21.5	(34.1)		71.6

Level 3 Financial Assets and Financial Liabilities at Fair Value

Nine Months Ended September 30, 2012	Balance, beginning of period	Net realized gains/losses	Net unrealized gains/losses relating to instruments still held at the reporting date	Purchases and issuances	Settlements and reductions	Net transfers in and/or out of Level 3	Balance, end of period

Other investments	$ 103.4	$ (1.7)[1]	$ 7.7[1]	$ 13.4	$ (6.1)	$	$ 116.7
Contingent payment arrangements	87.1		(45.9)[2]	24.8			66.0
Obligations to related parties	92.0	0.9[3]	0.9[3]	22.1	(40.1)		75.8

(1) Gains and losses on Other investments are recorded in Investment and other income.

(2) Accretion and changes to payment estimates under the Company's contingent payment arrangements are recorded in Imputed interest expense and contingent payment arrangements and foreign currency translation adjustments related to such arrangements are recorded as Other comprehensive income.

(3) Gains and losses associated with agreements to repurchase Affiliate equity are recorded in Imputed interest expense and contingent payment arrangements. Gains and losses related to liabilities offsetting certain investments are recorded in Investment and other income.

It is the Company's policy to value financial assets or liabilities transferred as of the beginning of the period in which the transfer occurs. During the three months ended September 30, 2012, no financial assets were transferred from Level 1 to Level 2. During the nine months ended September 30, 2012, financial assets valued at $2.0 million were transferred from Level 1 to Level 2. There were no significant transfers of financial assets or liabilities in the three and nine months ended September 30, 2011.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company relies on the NAV of certain investments as their fair value. The NAVs have been derived from the fair values of the underlying investments as of the measurement dates. The following table summarizes, as of December 31, 2011 and September 30, 2012, the nature of these investments and any related liquidation restrictions or other factors which may impact the ultimate value realized:

	December 31, 2011		September 30, 2012	
Category of Investment	**Fair Value**	**Unfunded Commitments**	**Fair Value**	**Unfunded Commitments**
Private equity fund-of-funds[1]	$ 103.4	$ 80.5	$ 116.7	$ 75.1
Other funds[2]	47.2		71.1	
	$ 150.6	$ 80.5	$ 187.8	$ 75.1

(1) These funds primarily invest in a broad range of private equity funds, as well as making direct investments. Distributions will be received as the underlying assets are liquidated over the life of the funds, generally 15 years.

(2) These are multi-disciplinary funds that invest across various asset classes and strategies including long/short equity, credit and real estate. Investments are generally redeemable on a daily or quarterly basis.

There are no current plans to sell any of these investments.

The carrying value of senior bank debt approximates fair value because the debt is a credit facility with variable interest based on selected short-term rates. The fair market value of the 2042 Senior Notes at September 30, 2012 was $206.4 million. The fair market value of the 2008 senior convertible notes and the junior convertible trust preferred securities at December 31, 2011 were $500.0 million and $594.3 million, respectively. The fair market value of the 2008 senior convertible notes and the junior convertible trust preferred securities at September 30, 2012 were $516.6 million and $708.5 million, respectively. The senior bank debt, senior notes, senior convertible notes and junior convertible securities are classified as Level 2 because the fair value was determined utilizing observable inputs in non-active markets.

11. Variable Interest Entities

Sponsored Investment Funds

The Company's Affiliates act as the investment manager for certain investment funds that are considered variable interest entities ("VIEs"). In addition to an Affiliate's involvement as the investment manager, Affiliates may also hold investments in these products. Affiliates are not the primary beneficiary of these VIEs as their involvement is limited to that of a service provider and their investment, if any, represents an insignificant interest in the fund's assets under management. As a result, the Company's variable interests will not absorb the majority of the variability of the entity's net assets and therefore the Company has not consolidated these entities.

Trust Preferred Vehicles

The Company established wholly-owned trusts in connection with the 2006 and 2007 issuances of junior convertible trust preferred securities. These entities are considered VIEs and the Company is not the primary beneficiary, therefore these entities are not consolidated in the Company's financial statements.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The net assets and liabilities of these unconsolidated VIEs and the Company's maximum risk of loss related thereto are as follows:

	December 31, 2011		September 30, 2012	
Category of Investment	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Sponsored investment funds	$ 3,618.4	$ 1.1	$ 5,972.4	$ 1.7
Trust preferred vehicles	9.0	9.0	9.0	9.0

12. Related Party Transactions

The Company periodically records amounts receivable and payable to Affiliate partners in connection with the transfer of Affiliate equity interests. The Company also has liabilities to related parties for deferred purchase price and contingent payment arrangements in connection with certain business combinations as well as liabilities offsetting certain investments which are held by the Company but economically attributable to a related party.

The total receivable at December 31, 2011 was $41.3 million, of which $1.4 million is included in Prepaid expenses and other current assets and $39.9 million is included in Other assets. The total receivable at September 30, 2012 was $38.6 million, of which $3.7 million is included in Prepaid expenses and other current assets and $34.9 million is included in Other assets. The total payable as of December 31, 2011 was $147.5 million, of which $33.2 million is included in current liabilities and $114.3 million is included in Other long-term liabilities. The total payable as of September 30, 2012 was $128.7 million, of which $10.7 million is included in current liabilities and $118.0 million is included in Other long-term liabilities.

In certain cases, Affiliate management owners and Company officers may serve as trustees or directors of certain mutual funds from which the Affiliate earns advisory fee revenue.

13. Stock Option and Incentive Plans

The following summarizes the transactions of the Company's stock option and incentive plans for the nine months ended September 30, 2012:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Unexercised options outstanding January 1, 2012	5.1	$ 68.18	
Options granted	0.0	104.25	
Options exercised	(0.9)	52.57	
Options forfeited	0.0	116.35	
Unexercised options outstanding September 30, 2012	4.2	71.61	4.1
Exercisable at September 30, 2012	2.1	65.81	3.3

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's Net income (controlling interest) for the three and nine months ended September 30, 2011 includes compensation expense of $4.5 million and $11.9 million, respectively (net of income tax benefits of $2.8 million and $7.4 million, respectively) related to the Company's Stock Option and Incentive, Executive Incentive, Long-Term Equity Interests and Deferred Compensation Plans as compared to compensation expense of $5.0 million and $14.9 million, (net of income tax benefits of $3.1 million and $9.2 million) for the three and nine months ended September 30, 2012. As of September 30, 2012, the Company expects to recognize compensation expense related to these share-based compensation arrangements of $56.7 million over a weighted average period of approximately three years (assuming no forfeitures). As of September 30, 2012, no outstanding options have expiration dates prior to the end of 2012.

14. Derivative Financial Instruments

From time to time, the Company seeks to offset its exposure to changing interest rates under its debt financing arrangements by entering into interest rate hedging contracts. The Company does not hold or issue derivative financial instruments for speculative purposes.

In 2010, the Company entered into interest rate swap contracts as summarized in the table below:

	Notional Amount	Paying	Receiving	Start Date	Expiration Date
Counterparty A	$ 25.0	1.67%	3-Month LIBOR	October 2010	October 2015
Counterparty A	$ 25.0	1.65%	3-Month LIBOR	October 2010	October 2015
Counterparty B	$ 25.0	1.59%	3-Month LIBOR	October 2010	October 2015
Counterparty B	$ 25.0	2.14%	3-Month LIBOR	October 2010	October 2017

In prior years, the Company entered into treasury rate lock contracts which were settled in 2011 for a net pre-tax loss of $0.7 million. The net loss on these contracts is reflected as a component of Other comprehensive income and will be reclassified to earnings over the life of the 2022 Senior Notes.

The Company's derivative contracts contain provisions that may require the Company or the counterparties to post collateral based upon the current fair value of the derivative contracts. As of September 30, 2012, the Company had posted collateral of $5.3 million related to its interest rate swap contracts.

The Company records all derivative instruments on the balance sheet at fair value. As cash flow hedges, the effective portion of the unrealized gain or loss on the derivative instruments is recorded in accumulated other comprehensive income as a separate component of stockholders' equity. Hedge effectiveness is measured by comparing the present value of the cumulative change in the expected future variable cash flows of the hedged contract with the present value of the cumulative change in the expected future variable cash flows of the hedged item. To the extent that the critical terms of the hedged item and the derivative are not identical, hedge ineffectiveness would be reported in earnings as Interest expense. Hedge ineffectiveness was not material in any periods presented.

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following summarizes the amount of derivative instrument gains and losses (before taxes) reported in the Consolidated Statements of Comprehensive Income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2012	2011	2012
Cash Flow Hedges				
Interest rate swaps	$ (3.6)	$ (0.5)	$ (5.4)	$ (1.4)
Treasury rate locks	(6.7)		(6.2)	
Total	$ (10.3)	$ (0.5)	$ (11.6)	$ (1.4)

The following summarizes the location and fair values of derivative instruments on the Consolidated Balance Sheets:

	December 31, 2011	September 30, 2012
Cash Flow Hedges		
Interest rate swaps[1]	$ (2.9)	$ (4.3)

(1) Presented within Other long-term liabilities.

15. Segment Information

Management has assessed 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 public and private client entities, including pension plans, foundations, endowments and sovereign wealth funds. Revenue in the High Net Worth distribution channel is earned from relationships with wealthy individuals, family trusts and managed account programs.

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 Income from equity method investments, 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

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2011			
	Mutual Fund	Institutional	High Net Worth	Total
Revenue	$ 179.0	$ 199.6	$ 35.2	$ 413.8
Operating expenses:				
Depreciation, intangible amortization and impairments	4.2	19.8	2.1	26.1
Other operating expenses	119.3	120.9	21.5	261.7
	123.5	140.7	23.6	287.8
Operating income	55.5	58.9	11.6	126.0
Non-operating (income) and expenses:				
Investment and other loss	5.5	2.6	1.4	9.5
Income from equity method investments	(2.0)	(6.6)	(1.2)	(9.8)
Interest expense	6.1	10.3	1.7	18.1
Imputed interest and contingent payment arrangements	4.7	3.1	0.5	8.3
	14.3	9.4	2.4	26.1
Income before income taxes	41.2	49.5	9.2	99.9
Income taxes	8.1	9.5	2.2	19.8
Net income	33.1	40.0	7.0	80.1
Net income (non-controlling interests)	(14.7)	(22.3)	(3.0)	(40.0)
Net income (controlling interest)	$ 18.4	$ 17.7	$ 4.0	$ 40.1

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three Months Ended September 30, 2012			
	Mutual Fund	**Institutional**	**High Net Worth**	**Total**
Revenue	$ 208.3	$ 210.7	$ 48.3	$ 467.3
Operating expenses:				
Depreciation, intangible amortization and impairments	5.4	19.0	3.1	27.5
Other operating expenses	139.1	131.5	29.5	300.1
	144.5	150.5	32.6	327.6
Operating income	63.8	60.2	15.7	139.7
Non-operating (income) and expenses:				
Investment and other income	(3.2)	(2.8)	(0.9)	(6.9)
Income from equity method investments	(3.2)	(14.8)	(1.4)	(19.4)
Interest expense	7.5	12.0	2.3	21.8
Imputed interest and contingent payment arrangements	3.2	3.0	0.5	6.7
	4.3	(2.6)	0.5	2.2
Income before income taxes	59.5	62.8	15.2	137.5
Income taxes	7.5	9.4	2.5	19.4
Net income	52.0	53.4	12.7	118.1
Net income (non-controlling interests)	(27.3)	(28.5)	(7.4)	(63.2)
Net income (controlling interest)	$ 24.7	$ 24.9	$ 5.3	$ 54.9

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Nine Months Ended September 30, 2011			
	Mutual Fund	Institutional	High Net Worth	Total
Revenue	$ 555.7	$ 640.6	$ 106.1	$ 1,302.4
Operating expenses:				
Depreciation, intangible amortization and impairments	12.3	59.3	6.3	77.9
Other operating expenses	375.7	392.0	65.9	833.6
	388.0	451.3	72.2	911.5
Operating income	167.7	189.3	33.9	390.9
Non-operating (income) and expenses:				
Investment and other (income) loss	2.0	(6.9)	11.7	6.8
Income from equity method investments	(2.5)	(34.2)	(3.4)	(40.1)
Interest expense	18.0	32.5	5.1	55.6
Imputed interest and contingent payment arrangements	13.6	9.8	1.5	24.9
	31.1	1.2	14.9	47.2
Income before income taxes	136.6	188.1	19.0	343.7
Income taxes	30.8	39.8	2.6	73.2
Net income	105.8	148.3	16.4	270.5
Net income (non-controlling interests)	(52.0)	(82.0)	(11.9)	(145.9)
Net income (controlling interest)	$ 53.8	$ 66.3	$ 4.5	$ 124.6

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Nine Months Ended September 30, 2012			
	Mutual Fund	Institutional	High Net Worth	Total
Revenue	$ 557.4	$ 636.8	$ 120.3	$ 1,314.5
Operating expenses:				
Depreciation, intangible amortization and impairments	115.1	57.8	6.8	179.7
Other operating expenses	385.2	400.9	75.2	861.3
	500.3	458.7	82.0	1,041.0
Operating income	57.1	178.1	38.3	273.5
Non-operating (income) and expenses:				
Investment and other income	(7.5)	(10.9)	(1.9)	(20.3)
Income from equity method investments	(8.5)	(34.6)	(4.2)	(47.3)
Interest expense	19.5	33.7	5.6	58.8
Imputed interest and contingent payment arrangements	(24.7)	(12.1)	1.1	(35.7)
	(21.2)	(23.9)	0.6	(44.5)
Income before income taxes	78.3	202.0	37.7	318.0
Income taxes		39.2	6.8	46.0
Net income	78.3	162.8	30.9	272.0
Net income (non-controlling interests)	(70.0)	(85.8)	(17.3)	(173.1)
Net Income (controlling interest)	$ 8.3	$ 77.0	$ 13.6	$ 98.9
Balance Sheet Information				
Total assets as of December 31, 2011	$ 1,920.6	$ 2,836.2	$ 462.1	$ 5,218.9
Total assets as of September 30, 2012	$ 2,367.5	$ 3,029.5	$ 633.8	$ 6,030.8

16. Business Combinations

On June 29, 2012, the Company completed majority investments in Veritable, LP ("Veritable") and Yacktman Asset Management Co. ("Yacktman").

The Company's purchase price allocation for Veritable is provisional and was performed using a financial model that includes assumptions of expected market performance, net client cash flows and discount rates. These provisional amounts may be revised upon completion of the final valuation. The excess of the enterprise value over the net assets acquired was recorded as goodwill, of which 100% was attributed to the Company's High Net Worth segment. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life.

The Company's purchase price allocation for Yacktman is provisional and was performed using a financial model that includes assumptions of expected market performance, net client cash flows and discount rates. These provisional amounts may be revised upon completion of the final valuation. The excess of the enterprise value over the net assets acquired was recorded as goodwill, of which 91% and 9% was attributed to the Company's Mutual Fund and High Net Worth segments, respectively. The consideration paid (less net tangible assets acquired) will be deductible for U.S. tax purposes over a 15-year life. As part of this investment, the Company is contingently liable to make payments of up to $75.0 million over the next three to five years upon the achievement of specified revenue targets. The

AFFILIATED MANAGERS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company projects contingent payments totaling $52.6 million, and as of September 30, 2012, the present value of these payments was $24.8 million.

The provisional purchase price allocations for these investments are as follows:

	Veritable	Yacktman
Consideration paid	$ 116.8	$ 301.0
Non-controlling interests	30.8	213.3
Contingent payment obligations		24.8
Enterprise value	$ 147.6	$ 539.1
Acquired client relationships	$ 85.1	$ 367.5
Tangible assets, net	2.7	9.0
Goodwill	59.8	162.6
	$ 147.6	$ 539.1

Unaudited pro forma financial results are set forth below, giving consideration to the investments and acquisitions in 2012, as if such transactions occurred as of January 1, 2011, assuming the revenue sharing arrangement