



# AFFILIATED MANAGERS GROUP

ANNUAL REPORT 2001





Affiliated Managers Group, Inc. (NYSE: AMG) is an asset management company with equity investments in a diverse group of growing, mid-sized investment management firms (its “Affiliates”). AMG’s innovative approach preserves the entrepreneurial orientation that distinguishes the most successful investment management firms by:

- ▶ *Maintaining and enhancing Affiliate managers’ equity incentives in their firms;*
- ▶ *Allowing Affiliate managers to retain operational autonomy, thereby preserving each Affiliate’s distinct culture and investment focus; and*





► *Providing Affiliates with the ability to realize the benefits of scale economies in distribution, operations and technology.*

AMG grows both through the internal growth of its existing Affiliates and through investments in new Affiliates. Through its affiliated investment management firms, AMG currently manages over \$80 billion in approximately 150 investment products across a broad range of investment styles and distribution channels. Since the Company's initial public offering in 1997, AMG has achieved strong long-term growth in earnings and cash flow, with compound annual growth in Cash EPS of 25%.



## FINANCIAL HIGHLIGHTS

	Years ended December 31,		
<i>(in millions, except as indicated and per share data)</i>	1999	2000	2001
<b>OPERATING RESULTS</b>			
Revenue	\$518.7	\$458.7	\$ 408.2
EBITDA <sup>(1)</sup>	166.8	142.4	132.1
Net Income	72.2	56.7	50.0
Cash Net Income <sup>(2)</sup>	98.3	87.7	84.1
Earnings per share – diluted	\$ 3.18	\$ 2.49	\$ 2.20
Cash earnings per share <sup>(3)</sup> – diluted	4.33	3.85	3.70
<b>BALANCE SHEET DATA</b>			
Total assets	\$909.1	\$793.7	\$1,160.3
Senior indebtedness <sup>(4)</sup>	174.5	151.0	252.9
Stockholders' equity	478.0	493.9	543.3
<b>OTHER FINANCIAL DATA</b>			
Assets under management <i>(at period end, in billions)</i>	\$ 82.0	\$ 77.5	\$ 81.0
Average shares outstanding – diluted	22.7	22.8	22.7

(1) Earnings before interest expense, income taxes, depreciation and amortization.

(2) Net income plus depreciation and amortization. As discussed on page 23, beginning in 2002 our definition of Cash Net Income will be modified to "net income plus depreciation, amortization and deferred taxes."

(3) Cash Net Income on a per share basis.

(4) Excludes mandatory convertible debt.

## LETTER TO SHAREHOLDERS

We are pleased to report AMG's results and accomplishments for 2001. Notwithstanding the challenges of a difficult equity market environment, AMG posted solid financial results, driven by continued growth in net client cash flows from directly managed assets and strong relative investment performance. We completed a number of Affiliate Development projects designed to broaden our Affiliates' product offerings and enhance their distribution capabilities. Finally, we executed investments in two outstanding new Affiliates, Friess Associates and Welch & Forbes.

Our Affiliates' strong growth in net client cash flows throughout the year helped to counter the impact of market-related declines in assets under management. Indeed, the fourth quarter marked the seventh consecutive quarter of positive net flows from directly managed assets by our Affiliates, and aggregate client cash flows for the year contributed \$10.7 million to AMG's annualized EBITDA.

The breadth and diversity among our Affiliates' approximately 150 investment products provided additional stability to our earnings. Our EBITDA in 2001 was generated almost equally by value and growth products, and evenly across the high net worth, mutual fund and institutional distribution channels. Looking ahead, AMG has broad exposure across our Affiliates' principal distribution channels, and we are well positioned to participate in some of the fastest growing segments of the industry.

We were pleased with our Affiliates' relative investment performance in 2001, and particularly with that of our larger, value-oriented Affiliates. Our largest Affiliate (as measured by contribution to EBITDA), Tweedy, Browne Company achieved excellent investment performance throughout the year, with both its American Value and Global Value products outperforming their competitors and relevant indices. Rorer Asset Management, a relative value man-



*Counter-clockwise from bottom left:*  
*Bill Nutt, Chairman and CEO*  
*Sean Healey, President and COO*  
*Seth Brennan, Executive Vice President, New Investments*  
*Darrell Crate, Executive Vice President and CFO*  
*Nate Dalton, Executive Vice President, Affiliate Development and General Counsel*

ager, had very significant growth in net client cash flows for the year. Systematic Financial Management, another value manager, was one of our top performers for the year, generating a 30% increase in assets under management through excellent investment performance and strong net client cash flows.

In 2001, we undertook several growth initiatives designed to help our Affiliates expand their product offerings and enhance their distribution opportunities. For example, we developed our first multi-Affiliate product, leveraging the investment expertise of the broader organization to create a series of diversified portfolios, with each portfolio being managed by several AMG Affiliates. Unique in the industry, these portfolios allow investors to access multiple independent specialty managers with distinct investment styles in a single portfolio. We also invested in DFD Select Group, a Paris-based marketer of alternative products, which enabled our Affiliates with alternative products to broaden their distribution in the European institutional and high net worth marketplace. Going forward, we will continue to draw on our scale and expertise to identify and facilitate strategic partnerships, recruit key investment management professionals, and enhance technological and operating efficiencies for our Affiliates.

We were particularly pleased with our success in executing investments in new Affiliates in 2001. In the fourth quarter, we completed investments in Friess Associates, a highly regarded growth equity manager best known as the adviser to the Brandywine family of no-load mutual funds, and Welch & Forbes, a leading Boston-based high net worth adviser which was founded in 1838. Each firm is an excellent addition to the AMG group of Affiliates, and together, they add to the diversity of our sources of EBITDA by strengthening our presence in the mutual fund and high net worth distribution channels.





AMG continues to identify and build relationships with growing, high quality mid-sized investment management firms, and our investment structure is increasingly recognized as the superior alternative for firms that value their independence and entrepreneurial culture but face succession and continuity issues. In addition to pursuing investments in new Affiliates, AMG constantly evaluates opportunities to invest in other investment management related businesses where a relationship with AMG can support and incent continued growth, while complementing or enhancing the operations of our existing Affiliates.

We remain focused on using our strong recurring cash flow and our flexible capital structure to create value for our shareholders. We used a combination of proceeds from our May 2001 sale of \$251 million in convertible senior notes and funds available under our credit facility to make accretive investments in two new Affiliates last fall. In December 2001 and January 2002, we raised an additional \$230 million through the sale of mandatory convertible security units and used the proceeds to repay existing debt.

In closing, we would like to express our appreciation to our shareholders for their support, and to our Affiliates, management, employees and service providers for their continued contributions to AMG's success.

Sincerely,

A handwritten signature in black ink that reads "William J. Nutt".

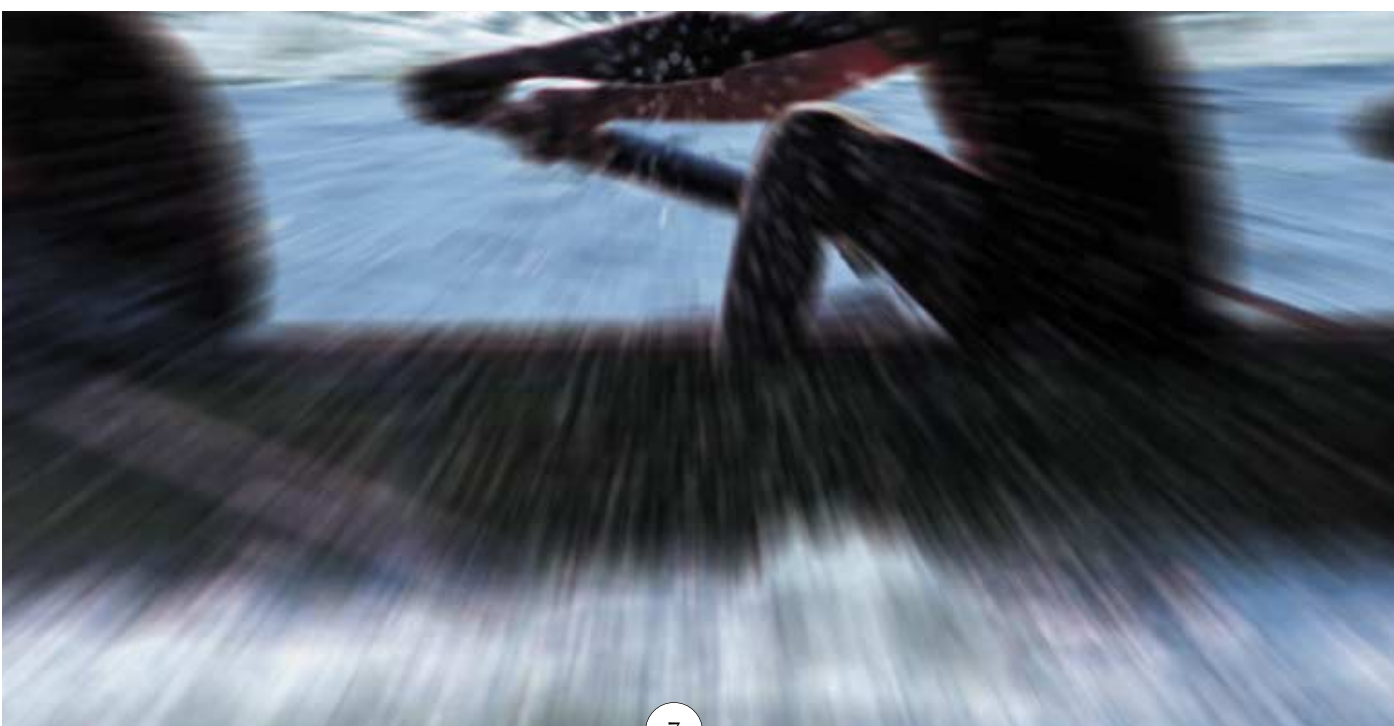
William J. Nutt, *Chairman and CEO*

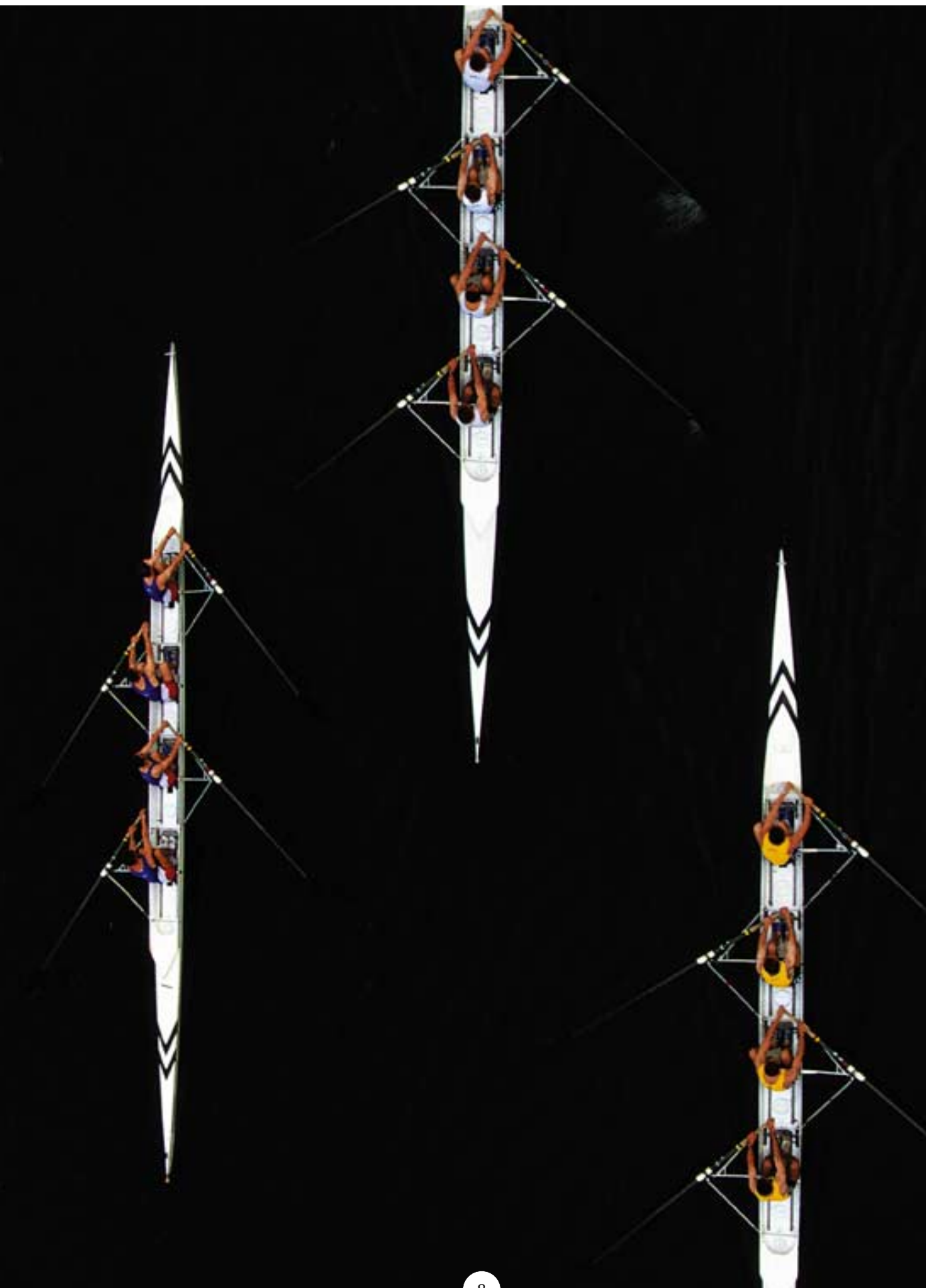
A handwritten signature in black ink that reads "S M Healey".

Sean M. Healey, *President and COO*



# AFFILIATED MANAGERS GROUP





**AMG** 's unique partnership approach creates powerful incentives for continued strong performance and excellent client service by providing Affiliate management with direct equity participation in their firms alongside AMG. AMG's growth strategy is to generate shareholder value through the internal growth of existing Affiliates, accretive investments in additional, growing mid-sized investment management firms, and strategic transactions and relationships designed to enhance its Affiliates' businesses and growth prospects.

AMG is well positioned to participate in many of the fastest growing areas of the investment management industry while maintaining a diversified exposure across industry sectors. The Company's balanced exposure to growth and value equity investment styles, and its broad participation in the high net worth, institutional and mutual fund distribution channels has enabled AMG to achieve consistent financial results in changing market conditions.

## **AFFILIATE DEVELOPMENT**

While AMG's Affiliates have independently demonstrated an ability to achieve strong internal growth, AMG is committed to helping Affiliates identify opportunities for growth and leverage the benefits of economies of scale, while preserving each Affiliate's unique culture and operating autonomy.

**Product Development and Broadening Distribution** — AMG works closely with its Affiliates to broaden their distribution capabilities through collective approaches and targeted initiatives. In 2001, AMG created a unique opportunity for Affiliates to expand their product offerings in the high net worth distribution channel by developing the Company's first multi-Affiliate product, a series of diversified portfolios targeted to high net worth investors and sold through brokerage intermediaries. The portfolios are designed to achieve different asset, style and risk allocations, with each portfolio managed by multiple, independent AMG Affiliates that employ distinct investment styles. AMG is the first in the industry to offer separate account investors exposure to several specialty investment firms in a single portfolio.

In addition, AMG helps Affiliates expand their distribution in the high net worth and institutional distribution channels through its investment in DFD Select Group, a Paris-based distributor of alternative investment products to the European high net worth and institutional markets. AMG's partnership with DFD Select Group provides those Affiliates with alternative products an excellent opportunity to expand their international high net worth client base.



AMG's Managers Funds mutual fund platform enables Affiliates with predominately institutional or high net worth clients to access the mutual fund marketplace with the support of a proven distribution, sales and client service organization. The Managers AMG mutual fund family continues to grow, with Rorer Asset Management and Frontier Capital Management both launching new funds in 2001, and several other Affiliates developing funds for launch in 2002.

Finally, AMG works closely with its Affiliates to expand and better execute upon their opportunities in the institutional distribution channel. Specialized AMG institutional marketing and client service professionals assist Affiliates in developing and improving sales and marketing materials and facilitate networking opportunities with the pension consultant and plan sponsor communities.



**Capturing Economies of Scale** — Wherever possible, AMG uses its size and resources to provide business-enhancing opportunities for Affiliates in areas such as technology, compliance and risk management, while avoiding interference with the distinct operating culture at each Affiliate. AMG often serves as a resource for Affiliates in need of special assistance in recruiting, marketing and business planning. In addition, AMG provides opportunities for Affiliate managers to discuss topics of mutual interest, share insights and best practices, and develop joint initiatives through its Affiliate intranet, as well as a series of annual Affiliate conferences targeted at key aspects of the investment management business.

**Strategic Initiatives on Behalf of Affiliates** — AMG enhances the growth of individual Affiliates by helping them leverage their own capabilities through acquisitions of other firms, teams, or lines of business. For example, in 2001, AMG sourced, structured and financed a merger between Renaissance Investment Management, a Cincinnati-based Affiliate, and Bowling Portfolio Management, another manager based in Cincinnati. The merger brought together two firms with complementary investment styles and allowed each firm to expand its administrative, marketing, client service and technological capabilities while maintaining its distinct investment processes.

## NEW INVESTMENTS

AMG continues to grow through additional, accretive investments in growing, high quality mid-sized investment management firms. AMG's investment approach is recognized as a superior alternative for firms that expect to continue to grow their business and value their independent and entrepreneurial culture, but seek to address succes-





sion and long-term continuity issues. By choosing to partner with AMG, Affiliate managers are able to retain direct equity in their firm while gaining a degree of liquidity, and preserving their firm's autonomy and unique investment culture. In 2001, the Company invested in two new Affiliates, Friess Associates and Welch & Forbes:

► Friess Associates, headquartered in Delaware, is a highly regarded growth equity manager best known as the adviser to the Brandywine family of no-load mutual funds. In addition to managing the Brandywine funds, the firm advises separate accounts for charitable foundations, major corporations and high net worth individuals.

► Welch & Forbes is a leading Boston-based investment manager for high net worth individuals and families. The firm provides customized investment advisory and fiduciary services, as well as estate and tax services. Welch & Forbes has maintained an excellent reputation for service, integrity and discretion since the firm's founding in 1838, and many of its clients have been with the firm for generations.

AMG continues to seek new investment opportunities by cultivating relationships with the highest quality mid-sized investment management firms in order to introduce the benefits of AMG's structure to the most promising potential Affiliates. In addition to making ongoing investments in mid-sized asset management firms, AMG seeks to invest in other investment management-related businesses which complement or enhance the operations of the Company's existing Affiliates.



## FINANCIAL STRENGTH

With AMG's broad exposure across various investment styles and distribution channels and its Affiliates' continued growth from net client cash flows, the Company has generated strong recurring cash earnings in a range of equity market environments.

AMG's demonstrated ability to execute additional investments in growing mid-sized investment management firms on terms that are accretive to Cash EPS represents another important source of earnings growth. The Company's investments in new Affiliates can contribute immediately to its cash earnings because incremental investments have almost no impact on the Company's fixed expenses.

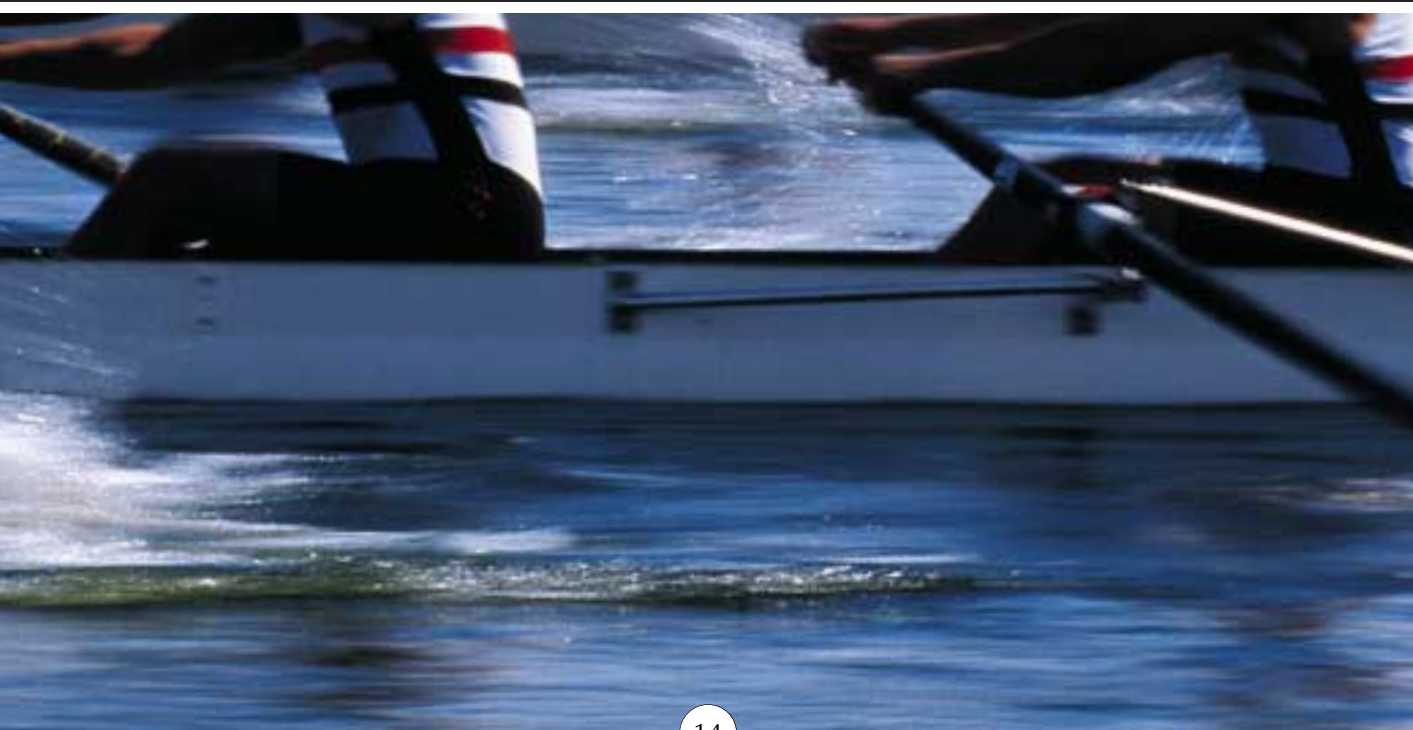
AMG's strong recurring cash earnings are an important source of capital to fund new investments. The Company has a balanced capital structure with controlled financial leverage. AMG maintains an investment grade credit rating, and is well positioned to opportunistically access the capital markets. AMG deploys cash on hand to finance new investments, repay debt and repurchase shares where appropriate.



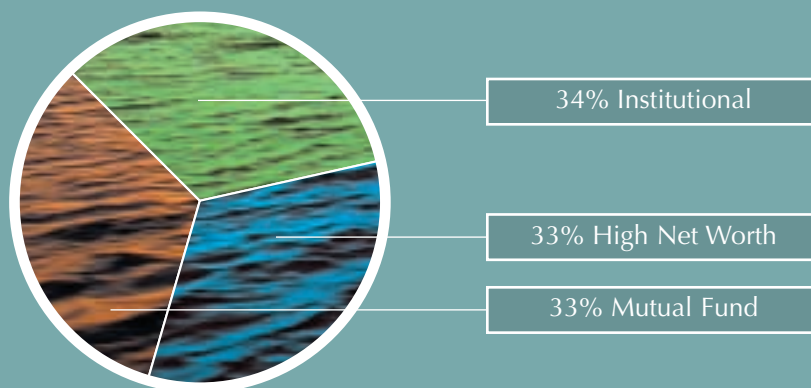
## AMG AT A GLANCE

Affiliates grow through the addition and appreciation of their assets under management from client cash flows and investment performance. A number of AMG's Affiliates also have the opportunity for additional revenue from performance-based accounts.

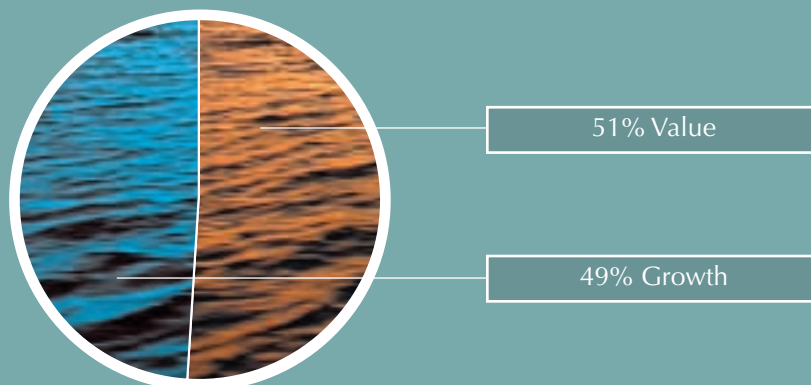
At the holding company level, the range of Affiliate investment styles, client types and distribution channels diversifies AMG's sources of earnings in a balanced manner that reduces the risks created by changing market environments and allows participation in the fastest growing segments of the industry.



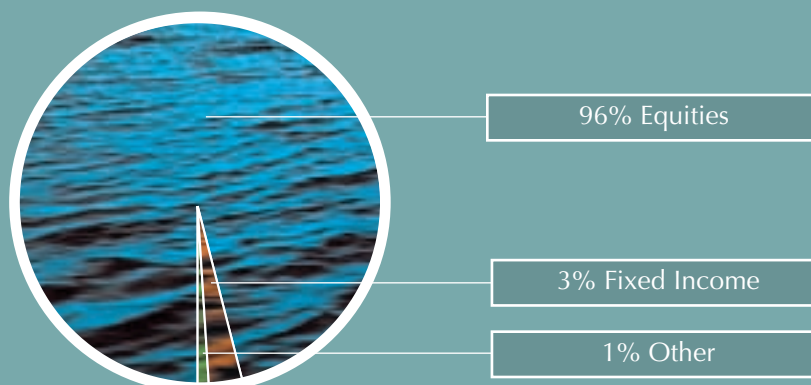
#### DISTRIBUTION CHANNEL



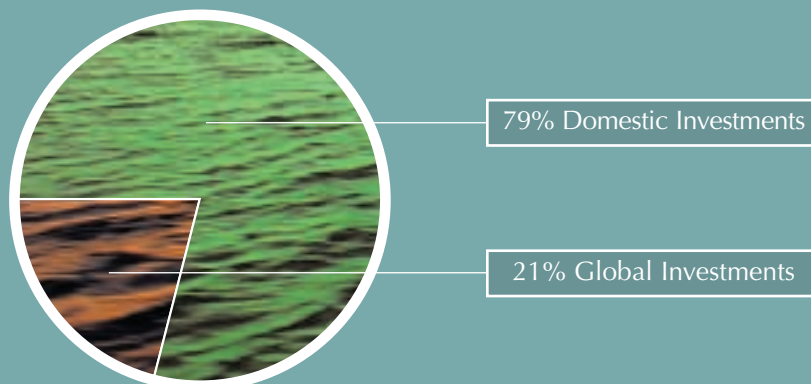
#### EQUITY STYLE



#### ASSET CLASS



#### GEOGRAPHY



*Figures represent percentages of EBITDA for the year ended December 31, 2001, on a pro forma basis for investments completed during 2001 as if each had occurred on January 1, 2001.*

# AMG AFFILIATES



Burridge  
Essex  
Friess Associates  
Frontier  
GeoCapital  
Gofen and Glossberg  
Hartwell  
Renaissance  
Rorer  
Systematic  
Tweedy, Browne  
Welch & Forbes



Davis Hamilton Jackson  
Essex  
Friess Associates  
Frontier  
The Managers Funds  
Rorer  
Skyline  
Systematic  
Tweedy, Browne



Burridge  
Davis Hamilton Jackson  
Essex  
First Quadrant  
Friess Associates  
Frontier  
GeoCapital  
Gofen and Glossberg  
Hartwell  
Paradigm  
Renaissance  
Rorer  
Skyline  
Systematic  
Tweedy, Browne  
Welch & Forbes



**Burridge** — The Burridge Group LLC provides investment management services to high net worth individuals and institutions through two divisions: Burridge Growth Partners, located in Chicago, and Sound Capital Partners, located in Seattle. The Burridge division invests in small and mid capitalization companies with superior projected earnings growth utilizing proven valuation disciplines. The Sound division integrates top-down economic analysis with fundamental research-driven security selection to invest in large capitalization growth companies. Investment decisions are based on disciplined, fundamental company analysis.

**Davis Hamilton Jackson** — Based in Houston, Davis Hamilton Jackson & Associates, L.P. specializes in large and mid capitalization growth equities and fixed income investments. The firm's clients primarily include institutions such as public funds, corporations, endowments and foundations, and multi-employer plans and trusts. The firm employs a research-driven, quantitative approach in its stock selection process and follows a well-defined sell discipline. In its fixed income investments, the firm seeks high current return and low volatility.

**Essex** — Essex Investment Management Company, LLC is a Boston-based investment adviser which specializes in growth equity investments on behalf of high net worth individual, institutional and mutual fund clients. Essex employs an aggressive growth strategy that combines fundamental research with active portfolio management. The firm's investment philosophy is based on the principle that a company's management team, business model, earnings growth, and profitability will drive its future price performance. Identifying "franchise opportunities," Essex believes, will help achieve superior investment returns.

**First Quadrant** — First Quadrant, L.P. serves institutional clients through its offices in Pasadena, California and London, England. The firm specializes in asset allocation, equity style management and option overlays on a global basis. Employing a highly disciplined quantitative methodology to guide its investment strategy, First Quadrant seeks to add value by assessing relative valuations across major segments of the portfolio: among asset classes, across global markets, among equity styles and in currency allocation.

**Friess Associates** — Based in Delaware, Friess Associates, LLC is a growth equity manager that serves as the investment adviser to the Brandywine family of no-load mutual funds, as well as separately managed portfolios for high net worth individuals and institutions. The firm uses an extensive research process to identify and invest in companies experiencing rapid year-over-year earnings growth whose stocks sell at reasonable price-to-earnings ratios.

**Frontier** — Frontier Capital Management Company, LLC is based in Boston and specializes in both growth and relative value equity investments on behalf of high net worth individual, mutual fund and institutional clients. The firm's highly disciplined stock selection process is driven by intensive internal research that targets companies with prospects for above-average earnings growth over extended time periods. The basic premise of the Frontier investment philosophy is that growth must be purchased at a reasonable price.



**GeoCapital** — GeoCapital, LLC is a growth-oriented investment adviser based in New York serving institutions and high net worth individuals. The firm invests in small capitalization companies that create and market new technologies and services, and in “special situation” companies with undervalued or unrecognized assets or earnings. The firm believes that the combination of these two types of investments in a single portfolio can lessen market risks, while providing the superior returns of investing in small companies.

**Gofen and Glossberg** — Founded in 1932, Gofen and Glossberg, L.L.C. is a Chicago-based investment adviser providing highly customized investment services, principally to high net worth individuals and institutions. The firm provides allocation recommendations, as well as specific equity and fixed income security selection, for each client portfolio. Gofen and Glossberg emphasizes fundamental security analysis and seeks to generate superior returns over a multi-year period by owning high quality, growing companies with distinctive franchises.

**Hartwell** — J.M. Hartwell Limited Partnership is a New York-based growth equity investment manager primarily serving high net worth individuals. The firm employs a fundamental, bottom-up approach to investing in large and small capitalization companies. Hartwell uses a rigorous and disciplined stock selection process to identify and make long-term investments in companies with strong business and financial characteristics.

**Managers** — The Managers Funds LLC is a Connecticut-based adviser to two families of no-load mutual funds, The Managers Funds and Managers AMG Funds. The firm selects sub-advisers for The Managers Funds from the universe of institutional investment managers. The Managers AMG Funds are sub-advised by AMG Affiliates. The Managers Funds and Managers AMG Funds are distributed to retail and institutional clients directly and through intermediaries including independent registered investment advisers, 401(k) plan sponsors and alliances, broker-dealers, major fund marketplaces, and bank trust departments.

**Paradigm** — Based in New York, Paradigm Asset Management Company, L.L.C. is an equity style manager principally serving institutional clients. The firm combines active management insights with quantitative tools for risk control. It begins by identifying a set of superior active managers in each style. The process then takes the aggregate portfolios of these superior investors and, using a sophisticated optimizer, arrives at a smaller portfolio of stocks with identical risk and return characteristics.

**Renaissance** — Based in Cincinnati, The Renaissance Group LLC provides investment management services through two divisions: Renaissance Investment Management and Bowling Portfolio Management. Renaissance serves high net worth individuals and institutions, and specializes in quantitatively-based investment management strategies, which it employs in conjunction with traditional, growth-biased fundamental analysis. Bowling manages large capitalization value portfolios for high net worth individuals and institutions, and uses a disciplined decisionmaking process, employing both quantitative and qualitative analysis to invest in financially sound, undervalued companies.



**Rorer** — Rorer Asset Management, LLC is located in Philadelphia and specializes in domestic large and mid capitalization value equity and fixed income security investments for high net worth individuals and institutional clients. Rorer employs a highly disciplined relative value investment process to reduce performance volatility while achieving excellent risk-adjusted returns across investment cycles.

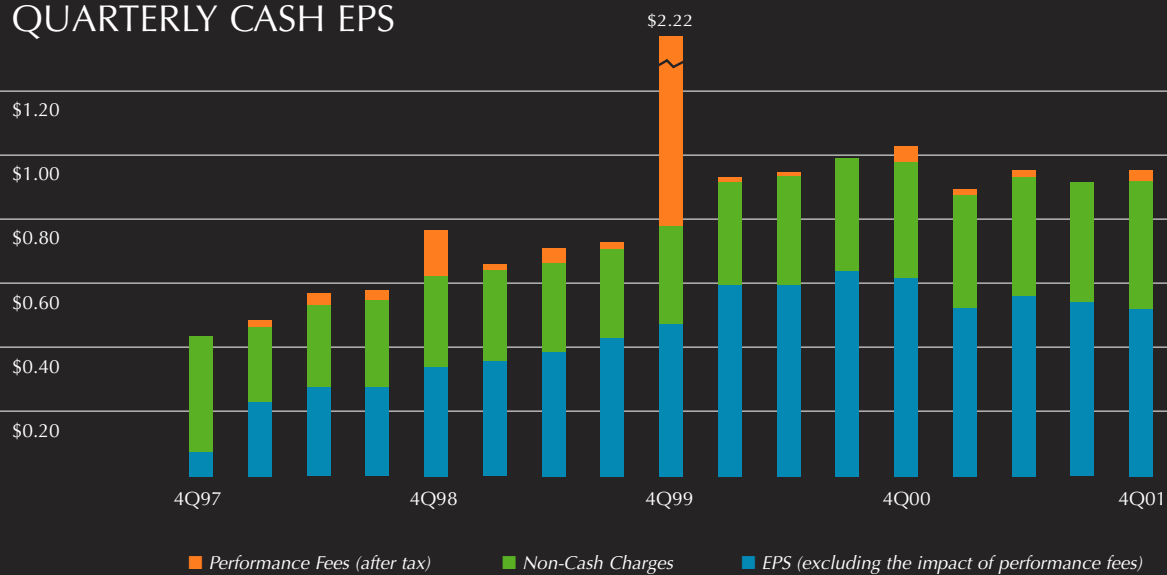
**Skyline** — Based in Chicago, Skyline Asset Management, L.P. is a value-oriented investment adviser with a focus on small capitalization companies. The firm serves mutual fund and institutional clients using a bottom-up investment philosophy that is supported by fundamental in-house research to identify and invest in attractive growth prospects. Skyline is the adviser to the Skyline Special Equities Portfolio, a no-load mutual fund emphasizing investments in small capitalization companies that have below average valuations and above average earnings growth prospects.

**Systematic** — Systematic Financial Management, L.P. is a New Jersey-based firm providing investment management services to high net worth individuals, mutual funds and institutions. Systematic has a value-oriented investment style and employs a research-driven, team-based approach in portfolio management, utilizing extensive qualitative fundamental analysis and innovative quantitative techniques. The firm invests in undervalued companies with strong cash flow and earnings characteristics, attractive valuations, and specific catalysts in place that the firm believes will increase investors' value.

**Tweedy, Browne** — Founded in 1920, Tweedy, Browne Company LLC is located in New York, and has a research office in London. The firm manages the Tweedy, Browne American Value and Global Value mutual funds, as well as separate accounts for high net worth individuals and institutions. The firm employs the value-oriented investment approach advocated by Benjamin Graham and seeks to invest in companies trading at a substantial discount to their true business value while emphasizing a long-term, low turnover strategy grounded in individual stock selection. Tweedy, Browne's investment discipline emphasizes preservation of capital while seeking a satisfactory rate of return.

**Welch & Forbes** — Established in 1838, Welch & Forbes LLC is a Boston-based investment adviser which provides customized investment advisory and fiduciary services to a range of clients including high net worth individuals and families, personal trusts and charitable foundations. Client portfolios are tailored to meet each client's objectives, and are invested in a range of quality growth equity securities, fixed income securities and venture capital investments. The firm also provides estate and tax services for its clients.

## QUARTERLY CASH EPS



## FINANCIAL INFORMATION

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

### FORWARD-LOOKING STATEMENTS

*When used in this Annual Report and in our filings with the Securities and Exchange Commission, in our press releases and in oral statements made with the approval of an authorized officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "believes," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including those discussed under the caption "Business—Cautionary Statements," which are set forth in our 2001 Annual Report on Form 10-K, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We wish to advise readers that the factors under the caption "Business—Cautionary Statements" in the 2001 Annual Report on Form 10-K could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.*

### OVERVIEW

We are an asset management company with equity investments in a diverse group of mid-sized investment management firms (our "Affiliates"). As of December 31, 2001, our affiliated investment management firms managed approximately \$81.0 billion in assets across a broad range of investment styles and in three principal distribution channels (High Net Worth, Mutual Fund and Institutional). We pursue a growth strategy designed to generate shareholder value through the internal growth of existing Affiliates, investments in additional, mid-sized investment management firms, and strategic transactions and relationships designed to enhance our Affiliates' businesses and growth prospects.

In our investments in Affiliates, we typically hold a majority interest in each firm, with the remaining equity interests retained by the management of the Affiliate. Each Affiliate is organized as a separate and largely autonomous limited liability company or limited partnership. Each Affiliate

operating agreement is tailored to meet the particular characteristics of the Affiliate. Many of our Affiliates' organizational documents include revenue sharing arrangements. Each such revenue sharing arrangement allocates a percentage of revenue (typically 50–70%) for use by management of that Affiliate in paying operating expenses of the Affiliate, including salaries and bonuses. We call this the "Operating Allocation." We determine the percentage of revenue designated as Operating Allocation for each Affiliate in consultation with senior management of the Affiliate at the time of our investment based on the Affiliate's historical and projected operating margins. The organizational document of each such Affiliate allocates the remaining portion of the Affiliate's revenue (typically 30–50%) to the owners of that Affiliate (including us). We call this the "Owners' Allocation." Each Affiliate distributes its Owners' Allocation to its managers and to us generally in proportion to their and our respective ownership interests in that Affiliate.

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 which is available for growth initiatives and compensation.

An Affiliate's managers therefore have incentives to increase revenue (thereby increasing the Operating Allocation and their share of the Owners' Allocation) and to control expenses (thereby increasing the amount of Operating Allocation available for their compensation).

The revenue sharing arrangements allow us to participate in the revenue growth of each Affiliate because we receive a portion of the additional revenue as our share of the Owners' Allocation. We participate in that growth to a lesser extent than the Affiliate's managers, however, because we do not share in the growth of the Operating Allocation or in any increases in profit margin.

In certain other cases (such as, for example, The Managers Funds LLC ("Managers")), the Affiliate is not subject to a revenue sharing arrangement, but instead operates on a profit-based model. As a result, we participate fully in any increase or decrease in the revenue or expenses of such firms.

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

- the operating expenses of our Affiliates (which generally are limited to their Operating Allocations);
- our operating expenses (i.e., our holding company expenses, including interest, amortization and income taxes); and
- the profits owned by our Affiliates' managers (representing their share of the Owners' Allocation and referred to on our income statement as "minority interest").

As discussed above, the operating expenses of an 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.

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

- 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;
- a variety of factors affecting the securities markets generally, which could potentially result in considerable increases or decreases in the assets under management at our Affiliates;
- the receipt of Owners' Allocation, which depends on the ability of our existing and future Affiliates to maintain certain levels of operating profit margins;
- 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.

We generally derive our revenue from the provision of investment management services for fees by our Affiliates. Investment management fees ("asset-based fees") are usually determined as a percentage fee charged on periodic

values of a client's assets under management. Certain of the Affiliates bill advisory fees for all or a portion of their clients based upon assets under management valued at the beginning of a billing period ("in advance"). Other Affiliates bill advisory fees for all or a portion of their clients based upon assets under management valued at the end of the billing period ("in arrears"), while mutual fund clients are billed based upon daily assets. Advisory fees billed in advance will not reflect subsequent changes in the market value of assets under management for that period. Conversely, advisory fees billed in arrears will reflect changes in the market value of assets under management for that period. In addition, fees paid on the basis of investment performance ("performance fees") at certain Affiliates may affect the profitability of those Affiliates and us. Performance fees are inherently dependent on investment results, and therefore may vary substantially from year to year. For example, performance fees were of an unusual magnitude in 1999, but were not as significant in 2000 or 2001, and may not recur even to the same magnitude as in 2000 or 2001 in future years, if at all.

Our profit distributions generally take priority over the distributions to other owners. If there are any expenses in excess of the Operating Allocation of an Affiliate, 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 future Owners' Allocation.

We believe it is significant to distinguish certain amortization and other non-cash expenses from other operating expenses since these expenses do not require the use of cash. We have provided additional supplemental information in this report for "cash" related earnings as an addition to, but not as a substitute for, measures of financial performance under generally accepted accounting principles, and our calculations may not be consistent with those of other companies. In this report, our additional measures of "cash" related earnings are:

- Cash Net Income (net income plus depreciation and amortization), which we believe is useful to investors as an indicator of funds available to us which may be used to make new investments, repay debt obligations, repurchase shares of our Common Stock or pay dividends on our Common Stock (although we have no current plans to pay dividends);

- EBITDA (earnings before interest expense, income taxes, depreciation and amortization), which we believe is useful to investors as an indicator of our ability to service debt, make new investments and meet working capital requirements; and
- EBITDA Contribution (EBITDA plus our holding company operating expenses), which we believe is useful to investors as an indicator of funds available from our Affiliates' operations to pay holding company operating expenses, service debt, make new investments and meet working capital requirements.

Beginning in 2002, our measure of Cash Net Income will be modified in response to the implementation of Financial Accounting Standard No. 142 ("FAS 142"), "Goodwill and Other Intangible Assets." Prior to this change, deferred tax expenses were accrued because intangible assets were amortized over different periods for financial reporting and income tax purposes (since we structure our investments as taxable transactions, and since our cash taxes are reduced by amortization deductions over the periods prescribed by tax laws). While FAS 142 eliminated the amortization of goodwill and certain other intangible assets, it continues to require the accrual of deferred tax expenses for these assets. Nevertheless, because under FAS 142 this deferred tax accrual would reverse only in the event of a future sale or impairment of an Affiliate, we believe deferred tax accruals should be added back in calculating Cash Net Income to best approximate the actual funds available to us to make new investments, repay debt obligations or repurchase shares of Common Stock. Accordingly, in providing future supplemental information, we will define Cash Net Income as "net income plus depreciation, amortization and deferred taxes."

## RESULTS OF OPERATIONS

We conduct our business in three operating segments corresponding with the three principal distribution channels in which our Affiliates provide investment management services: High Net Worth, Mutual Fund and Institutional. Clients in the High Net Worth distribution channel include wealthy individuals and family trusts, with whom our Affiliates have direct relationships or indirect relationships through managed account ("wrap") programs. In the Mutual Fund distribution channel, our Affiliates provide advisory

or sub-advisory services to mutual funds that are distributed to retail and institutional clients directly and through intermediaries, including independent investment advisers, retirement plan sponsors, broker-dealers, major fund marketplaces and bank trust departments. In the Institutional distribution channel, our Affiliates manage assets for foundations and endowments, defined benefit and defined contribution plans for corporations and municipalities and Taft-Hartley plans.

Our assets under management include assets which are directly managed and those that underlie overlay strategies. Overlay assets (assets managed subject to strategies which employ futures, options or other derivative securities) generate fees which typically are substantially lower than the fees generated by our Affiliates' other investment strategies. Therefore, changes in directly managed assets have a greater impact on our revenue than changes in total assets under management (a figure which includes overlay assets).

The following tables present a summary of our reported assets under management by distribution channel and activity.

### Assets under Management — By Distribution Channel

	At December 31,		
(Dollars in billions)	1999	2000	2001
High Net Worth	\$16.1	\$22.2	\$24.6
Mutual Fund	7.4	9.3	14.4
Institutional	58.5	46.0	42.0
	\$82.0	\$77.5	\$81.0
Directly managed assets—Percent of total	75%	85%	88%
Overlay assets—Percent of total	25%	15%	12%
	100%	100%	100%

### Assets under Management — Statement of Changes

	Year Ended December 31,		
(Dollars in billions)	1999	2000	2001
Beginning of period	\$57.7	\$82.0	\$77.5
New investments	7.5	5.2	10.9
Net client cash flows—directly managed assets	0.5	0.2	2.8
Net client cash flows—overlay assets	(1.1)	(7.4)	(1.3)
Investment performance	17.4	(2.5)	(8.9)
End of period	\$82.0	\$77.5	\$81.0

Our assets under management at the end of 2001 were \$81.0 billion, 4.5% higher than at the end of 2000. Excluding new investments (the most significant of which in terms of impact on assets under management were closed in the final months of 2001), assets directly managed by our Affiliates

declined 10% in 2001, a decline which was primarily attributable to declines in the value of assets under management, which resulted principally from a broad decline in the equity markets.

The following table presents selected financial data for each of our operating segments.

<i>(in millions, except as noted)</i>	1999	2000	% Change	2001	% Change
<b>Average assets under management (in billions) <sup>(1)</sup></b>					
High Net Worth	\$ 13.5	\$ 20.0	48%	\$ 23.1	16%
Mutual Fund	6.5	8.6	32%	10.1	17%
Institutional	50.4	57.4	14%	39.7	(31%)
Total	\$ 70.4	\$ 86.0	22%	\$ 72.9	(15%)
<b>Revenue</b>					
High Net Worth	\$177.9	\$138.9	(22%)	\$133.8	(4%)
Mutual Fund	76.4	97.4	27%	113.6	17%
Institutional	264.4	222.4	(16%)	160.8	(28%)
Total	\$518.7	\$458.7	(12%)	\$408.2	(11%)
<b>Net income <sup>(2)</sup></b>					
High Net Worth	\$ 28.8	\$ 19.4	(33%)	\$ 18.6	(4%)
Mutual Fund	11.5	12.7	10%	15.6	23%
Institutional	31.9	24.6	(23%)	15.8	(36%)
Total	\$ 72.2	\$ 56.7	(21%)	\$ 50.0	(12%)
<b>EBITDA</b>					
High Net Worth	\$ 63.3	\$ 46.5	(27%)	\$ 45.1	(3%)
Mutual Fund	29.0	32.4	12%	38.8	20%
Institutional	74.5	63.5	(15%)	48.2	(24%)
Total	\$166.8	\$142.4	(15%)	\$132.1	(7%)

(1) Average assets under management for the High Net Worth and Institutional distribution channels represents an average of the assets under management at the end of each calendar quarter. Average assets under management for the Mutual Fund distribution channel represents an average of daily net assets for the year.

(2) Net income by distribution channel reflects revenue for assets managed in each distribution channel after our allocation of consolidated operating expenses, including the growth in profit margins beyond our contractual Owners' Allocation paid to Affiliate management partners as compensation from the Operating Allocation. Note 18 to our Consolidated Financial Statements describes the basis of presentation of our distribution channel operating results.

## Revenue

Our revenue is generally determined by the following factors:

- the increase or decrease in assets under management (from 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 directly managed and overlay assets, which realize different fee rates;
- the portion of our assets across the three principal distribution channels and our Affiliates, which realize different fee rates; and
- the recognition of any performance fees charged by certain Affiliates.

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.

Total revenue decreased 11% in 2001 from 2000, following a 12% decrease in 2000 from 1999. The decrease in revenue in 2001 resulted primarily from declines in directly managed assets attributable to declines in the value of assets under management, which resulted principally from a broad decline in the equity markets. These declines were partially offset by revenue generated by positive net client cash flows from directly managed assets and from investments in new Affiliates. The decrease in revenue in 2000 was principally the result of an unusual magnitude of performance fees realized in 1999, which accounted for 39% of revenue in 1999 and which did not recur at this level in 2000. The decrease in revenue in 2000 was partially offset by the growth in asset-based fees at our existing Affiliates and from our investment in Frontier Capital Management Company, LLC ("Frontier"), which closed in January 2000.

A discussion of the changes in our revenue by operating segments follows:

### High Net Worth Distribution Channel

The decrease in revenue in 2001 from 2000 resulted from a decline in performance fees and a shift in assets under management within this distribution channel to client relationships that realize lower fee rates, and was partially offset by

the increase in average assets under management. The increase in average assets under management of 16% from 2000 to 2001 was primarily attributable to positive net client cash flows from directly managed assets and our investment in Welch & Forbes LLC ("Welch & Forbes") in November 2001, and was partially offset by a decline in the value of assets under management attributable to equity market performance. The decrease in revenue in 2000 resulted principally from a decrease in performance fees, and was partially offset by an increase in average assets under management. The increase in average assets under management of 48% from 1999 to 2000 was primarily attributable to positive net client cash flows from directly managed assets and the increase in the value of assets under management attributable to equity market performance.

### Mutual Fund Distribution Channel

The increase in revenue in 2001 resulted principally from an increase in average assets under management. The increase in average assets under management of 17% from 2000 to 2001 was primarily attributable to positive net client cash flows from directly managed assets and our investment in Friess Associates, LLC ("Friess") in October 2001, and was partially offset by a decline in the value of assets under management attributable to equity market performance. The increase in revenue in 2000 was principally the result of an increase in average assets under management, which increased 32% from 1999 to 2000 as a result of positive net client cash flows from directly managed assets, and the increase in the value of assets under management attributable to equity market performance.

### Institutional Distribution Channel

The decrease in revenue in 2001 resulted from the decrease in average assets under management, and in particular from the decrease in our directly managed assets. The decrease in average assets under management of 31% from 2000 to 2001 was primarily attributable to net client cash outflows from directly managed and overlay assets, as well as a decline in the value of assets under management attributable to equity market performance. The decrease in revenue in 2000 resulted principally from a significant decrease in performance fees, and was partially offset by an increase in average assets under management. The increase in average assets under management of 14% in 2000 from 1999 was primarily attributable to our new investment in Frontier in January 2000.

## Operating Expenses

The following table presents a summary of our consolidated operating expenses (our holding company expenses and our Affiliates' Operating Allocations).

<i>(Dollars in millions)</i>	1999	2000	% Change	2001	% Change
Compensation and related expenses	\$217.8	\$174.8	(20%)	\$134.9	(23%)
Selling, general and administrative	53.3	68.2	28%	73.8	8%
Amortization of intangible assets	22.2	26.4	19%	28.4	8%
Depreciation and other amortization	3.9	4.6	18%	5.7	24%
Other operating expenses	8.9	10.3	16%	11.1	8%
Total operating expenses	\$306.1	\$284.3	(7%)	\$253.9	(11%)

Because substantially all of these expenses (excluding intangible amortization) are incurred by our Affiliates and because Affiliate expenses are generally limited to an Operating Allocation, our total operating expenses are impacted by increases or decreases in an Affiliate's revenue which correspondingly increase or decrease that Affiliate's Operating Allocation. Total operating expenses (excluding intangible amortization) decreased 13% from 2000 to 2001, following a 9% decrease from 1999 to 2000, reflecting the general relationship between revenue and the Operating Allocations for Affiliates with revenue sharing arrangements.

Compensation and related expenses decreased 23% in 2001 and 20% in 2000, primarily as a result of the relationship between revenue and operating expenses described above. Selling, general and administrative expenses increased 8% from 2000 to 2001 and 28% from 1999 to 2000. The increase in 2001 was attributable to increases in spending by our Affiliates from their Operating Allocations

and an increase in aggregate Affiliate expenses resulting from our investments in Friess and Welch & Forbes. The increase in 2000 principally resulted from the growth in mutual fund distribution expenses as a result of the acquisition of Managers in 1999 and the subsequent growth in Managers' revenue and related distribution expenses. The increases in amortization of intangible assets of 8% and 19% in 2001 and 2000, respectively, resulted from our investments in new Affiliates and our purchase of additional interests in existing Affiliates. The increase in amortization expenses in 2001 is less than the increase in 2000 because of the timing of new investments and changes in accounting rules. The Frontier investment was completed in January 2000, while the Friess and Welch & Forbes investments were completed in October 2001 and November 2001, respectively. In addition, in accordance with new accounting rules, we did not amortize the goodwill acquired in our 2001 investments.

## Other Income Statement Data

The following table summarizes other income statement data.

<i>(Dollars in millions)</i>	1999	2000	% Change	2001	% Change
Minority interest	\$86.2	\$65.3	(24%)	\$61.4	(6%)
Income tax expense	56.7	39.0	(31%)	33.3	(15%)
Interest expense	11.8	15.8	34%	14.7	(7%)
Investment and other income	14.2	2.3	(84%)	5.1	122%

Minority interest decreased 6% from 2000 to 2001, following a 24% decrease from 1999 to 2000. The decrease in 2001 resulted from the decline in revenue, and was partially offset by the growth in revenue at Affiliates in which we own relatively lower percentages of Owners' Allocation. The decrease in 2000 was attributable to the significant level of performance fees earned in 1999 and resultant higher levels

of Owners' Allocation accruing to Affiliate managers that did not recur to the same extent in 2000. In percentage terms, the decrease in minority interest in 2000 was greater than the decrease in revenue in 2000 because of the revenue growth at Managers, which has no related minority interest expense since we own substantially all of the firm.

The 15% decrease in income taxes from 2000 to 2001 was attributable to the decrease in income before taxes, and to a decrease in our effective tax rate from 41% to 40%. Our effective tax rate, which decreased from 44% to 41% in 2000, continued to decrease in 2001 as a result of a reduction in state taxes (which resulted from the addition of Affiliates in lower tax rate jurisdictions) and our implementation of an incentive compensation plan, which limited non-deductible expenses.

Interest expense decreased 7% in 2001 and increased 34% in 2000. The decrease in interest expense in 2001 resulted from the restructuring of our long-term debt to effect lower costs of borrowing and a decrease in the effective interest rate of our senior revolving credit facility. In May 2001, we completed the private placement of \$251 million principal amount at maturity of zero coupon senior convertible notes accreting at a rate of 0.50% per year, and used \$101 million of the net proceeds of approximately \$221 million to repay debt under our credit facility. The decrease in the effective interest rate of our senior revolving credit facility was the result of a decrease in LIBOR rates. The decrease in interest expense in 2001 was partially offset by \$3.2 million of amortization of debt issuance costs on the zero coupon notes and

expenses of \$2.0 million related to our transition to the new derivative accounting rules. In December 2001, we completed the sale of mandatory convertible securities in which we realized net proceeds of approximately \$194 million. In January 2002, the sale of over-allotment units increased the total net proceeds from this offering to \$223 million. Interest expense in 2001 was not materially affected by this transaction because it occurred in the final month of the year. The increase in interest expense in 2000 was the result of an increase in the weighted average debt outstanding under our credit facility and increases in LIBOR interest rates. The increase in weighted average debt outstanding was attributable to our investment in Frontier and our repurchase of shares of our Common Stock, and was partially offset by debt repayments from cash flows from operations.

The increase in investment and other income from 2000 to 2001 was attributable to the investment of proceeds realized from the sale of convertible notes described above. The decrease in investment and other income from 1999 to 2000 was primarily related to the significant levels of income recognized from Affiliates' interests in investment partnerships in 1999 that did not occur to the same degree in 2000.

### Net Income and Other Financial Data

The following table summarizes historical levels of net income and other supplemental measures concerning cash related earnings presented as an addition to, but not as a substitute for, net income.

<i>(Dollars in millions)</i>	1999	2000	% Change	2001	% Change
Net Income	\$ 72.2	\$ 56.7	(21%)	\$ 50.0	(12%)
EBITDA Contribution	184.5	164.7	(11%)	150.1	(9%)
EBITDA	166.8	142.4	(15%)	132.1	(7%)
Cash Net Income	98.3	87.7	(11%)	84.1	(4%)

The 12% and 21% decreases in net income in 2001 and 2000, respectively, resulted principally from the changes in the EBITDA Contribution of our Affiliates and, in 2000, from an increase in interest expense and amortization expense (as discussed previously), which did not recur in 2001. The 2001 and 2000 decreases in EBITDA Contribution and EBITDA were principally attributable to the factors that affected our revenue in these years, as discussed previously.

Cash Net Income decreased 4% and 11% in 2001 and 2000, respectively, primarily as a result of the previously described factors affecting net income, excluding the changes in depreciation and amortization during these periods.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes certain key financial data relating to our liquidity and capital resources as of December 31 in the years indicated below:

<i>(Dollars in millions)</i>	1999	2000	2001
<b>Balance Sheet Data</b>			
Cash and cash equivalents	\$ 53.9	\$ 31.6	\$ 73.4
Senior bank debt	174.5	151.0	25.0
Zero coupon convertible debt	—	—	227.9
Mandatory convertible debt	—	—	200.0
<b>Cash Flow Data</b>			
Operating cash flows	\$ 89.1	\$ 153.7	\$ 96.2
Investing cash flows	(112.9)	(111.7)	(343.7)
Financing cash flows	54.0	(64.0)	289.3

We have met our cash requirements primarily through borrowings from our banks, cash generated by operating activities and the issuance of equity and convertible debt securities. Our principal uses of cash have been to make investments, repay indebtedness, pay income taxes, repurchase shares, make additional investments in existing Affiliates (including our purchase of Affiliate managers' retained equity), support our and our Affiliates' operating activities and for working capital purposes. We expect that our principal uses of funds for the foreseeable future will be for additional investments, distributions to Affiliate managers, payment of interest on outstanding debt, payment of income taxes, capital expenditures, additional investments in existing Affiliates (including our purchase of Affiliate managers' retained equity) and for working capital purposes.

Under our senior revolving credit facility, we had outstanding borrowings of \$25 million and \$305 million of additional capacity as of December 31, 2001. While we have the option, with the consent of our lenders, to increase the facility by another \$70 million to a total of \$400 million, the pending maturity of our credit facility will likely limit our potential to exercise that option. Our borrowings under the credit facility are collateralized by pledges of all of our interests in our Affiliates (including all interests which are directly held by us, as well as all interests which are indirectly held by us through wholly-owned subsidiaries), which interests represent substantially all of our assets. In addition, our credit facility contains provisions for the ben-

efit of our lenders that restrict the manner in which we can conduct our business, that may adversely affect our ability to make investments in new and existing Affiliates and that may have an adverse impact on the interests of our stockholders. Our credit facility bears interest at either LIBOR plus a margin or the Prime Rate plus a margin. In order to partially offset our exposure to changing interest rates, we have entered into interest rate hedging contracts, as discussed below in "Market Risk." The credit facility matures in December 2002, and we intend to obtain new credit financing prior to that time. However, we may not be able to obtain this financing on terms comparable to our current credit facility. Our failure to do so could increase our interest expense, decrease our net income and adversely affect our ability to fund new investments and otherwise use our credit facility as described above.

Our obligations to purchase additional equity in our Affiliates extend over the next 15 years. As of December 31, 2001, if all of these obligations became due in their entirety, the aggregate amount of these obligations and other obligations for contingent payments would have been approximately \$678 million. Assuming the closing of the additional purchases, we would own the prospective Owners' Allocation of all additional equity so purchased, currently estimated to represent approximately \$86 million on an annualized basis. In order to provide the funds necessary for us to meet such obligations and for us to continue to acquire interests in investment management firms, it may be necessary for us to incur, from time to time, additional debt and/or to issue equity or debt securities, depending on market and other conditions. For example, in 2001 we sold \$251 million principal amount at maturity of zero coupon convertible senior notes and \$230 million of mandatory convertible securities (including an over-allotment exercised in January 2002). We may be required to repurchase some or all of the zero coupon convertible senior notes on various dates commencing May 7, 2002. These potential obligations, combined with our other cash needs, may require more cash than is available from operations. Thus, we may need to raise capital by making additional borrowings or by selling shares of our stock or other equity or debt securities, or to otherwise refinance a portion of these obligations. There can be no assurance that such additional financing or refinancing will be available on terms acceptable to us, if at all. Please see the discussion of our repurchase obligations under the zero coupon convertible senior notes in "Financing Cash Flows" below.

Cash and cash equivalents aggregated \$73.4 million at December 31, 2001, an increase of \$41.8 million from December 31, 2000. Excluding balances held by our Affiliates, we had approximately \$44.6 million in cash and cash equivalents at December 31, 2001.

### Operating Cash Flows

The decrease in net cash flow from operating activities from 2000 to 2001 and the increase from 1999 to 2000 resulted principally from operating cash flows received in 2000 from performance fees earned in the fourth quarter of 1999, which did not occur to the same degree in either 1999 or 2001.

### Investing Cash Flows

Year-to-year changes in net cash flow from investing activities result primarily from our investments in new and existing Affiliates. Net cash flow used to make investments was \$336.0 million, \$104.4 million, and \$103.5 million, for the years ended December 31, 2001, 2000 and 1999, respectively. In October 2001, we completed our \$241 million investment in Friess, which we funded through borrowings under our senior credit facility and working capital. In 2001, we also completed new investments in Welch & Forbes, Bowling Portfolio Management, DFD Select Group N.V. (which was formerly known as Dublin Fund Distributors, N.V.) ("DFD Select Group") and additional investments in existing Affiliates. These investments were funded through borrowings under our credit facility, working capital, notes issued to Affiliate managers and issuances of our Common Stock.

### Financing Cash Flows

The increase in net cash flow from financing activities from 2000 to 2001 was attributable to the sale of convertible debt securities, further described below. The decrease in net cash flow from financing activities from 1999 to 2000 was attributable to our 1999 follow-on offering of shares of our Common Stock and our repurchases of shares of our Common Stock in 2000 pursuant to our stock repurchase program, further described below. The principal sources of cash from financing activities over the last three years have been issuances of convertible debt securities, borrowings under our senior credit facility and our public offering of shares of Common Stock. Our uses of cash from financing activities during this period were for the repayment of debt and for the repurchase of shares of our Common Stock.

In May 2001, we completed the private placement of zero coupon senior convertible notes in which we realized net proceeds of approximately \$221 million. Approximately \$101 million of the net proceeds were used to repay debt under our senior revolving credit facility, and the balance was used for other general corporate purposes. In this private placement, we sold a total of \$251 million principal amount at maturity of zero coupon senior convertible notes due 2021, with each \$1,000 note issued at 90.50% of such principal amount and accreting at a rate of 0.50% per annum. Each security is convertible into 11.62 shares of our Common Stock upon the occurrence of any of the following events: (i) if for certain six-calendar month periods, the closing sale prices of our Common Stock are more than a specified price (initially \$93.53 and increasing incrementally each six calendar-month period for the next 20 years to \$94.62 on April 1, 2021); (ii) if the credit rating assigned to the securities is below a specified level; (iii) if we call the securities for redemption; or (iv) if we take certain corporate actions. We have the option to redeem the securities for cash on or after May 7, 2006, and the holders may require us to repurchase the securities at their accreted value on May 7 of 2002, 2004, 2006, 2011 and 2016. The purchase price for such repurchases may be paid in cash or shares of our Common Stock.

In December 2001, we completed a public offering of mandatory convertible debt securities (the "FELINE PRIDES"), in which we realized net proceeds of approximately \$194 million. In January 2002, the sale of an over-allotment of these securities increased our total net proceeds to \$223 million. Approximately \$183 million of the net proceeds were used to repay debt under our senior revolving credit facility, and the balance was used for other general corporate purposes. Each FELINE PRIDE initially consists of a unit referred to as an Income PRIDE, which includes (i) a senior note due November 17, 2006 with a principal amount of \$25, on which we will pay interest quarterly at the initial annual rate of 6%, and (ii) a forward purchase contract pursuant to which the holder has agreed to purchase, for \$25, shares of our Common Stock on November 17, 2004, with such number of shares to be determined based upon the average trading price of our Common Stock for a period preceding that date.

Each of the senior notes is pledged to us to secure the holder's obligations under the forward purchase contracts. A holder of an Income PRIDE can obtain the release of the pledged senior notes by substituting certain zero coupon treasury securities as security for performance under the forward purchase contract. The resulting unit consisting of the zero coupon treasury security and the forward purchase contract would be a Growth PRIDE, and the senior notes would be a separate security. In August 2004, the senior notes will be remarketed, and the interest rate will be reset, such that the total proceeds will be \$230 million. The holders will use the proceeds of the remarketing to fund their obligations to purchase shares of our Common Stock under the forward purchase contract. The number of shares of our Common Stock to be issued will be determined by the price of our Common Stock at that time, subject to the total proceeds from the remarketing equaling \$230 million.

During the year ended December 31, 2001, we repurchased 157,100 shares of Common Stock at an average price of \$57.97, with borrowings under our credit facility. The repurchases were pursuant to two share repurchase programs authorized by our Board of Directors in October 1999 and April 2000. Each program authorized us to repurchase up to 5% of our issued and outstanding shares of Common Stock in open market transactions, with the timing of purchases and the amount of stock purchased determined at our discretion. At December 31, 2001, 513,681 shares remain authorized to be repurchased under these repurchase programs.

## INTEREST RATE SENSITIVITY

Our revenue is derived primarily from fees which are based on the values of assets managed. Such values are affected by changes in the broader financial markets which are, in part, affected by changing interest rates. We cannot predict the effects that interest rates or changes in interest rates may have on either the broader financial markets or our Affiliates' assets under management and associated fees.

With respect to any debt financing, we may be exposed to potential fluctuations in the amount of interest expense resulting from changing interest rates. We seek to offset such exposure in part by entering into interest rate hedging contracts. See "Market Risk."

## MARKET RISK

We use interest rate derivative contracts to manage market exposures associated with our variable rate debt by creating offsetting market exposures. As of December 31, 2000, we were a party, with two major commercial banks as counterparties, to \$185 million notional amount of interest rate hedging contracts which were linked to the three-month LIBOR rate. We closed these contracts in January 2001 in conjunction with the implementation of the new derivative accounting standard, Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as described below.

During February 2001, we became a party, with two major commercial banks as counterparties, to \$50 million notional amount of interest rate swap contracts that are linked to the three-month LIBOR rate. Under these swap contracts, we agreed to exchange the difference between fixed-rate and floating-rate interest amounts calculated by reference to the notional amount. In February 2002, we closed \$25 million notional amount of these contracts and entered into a new \$25 million notional amount contract. The new swap contract does not qualify for hedge accounting under FAS 133.

In using these derivative instruments, we face certain risks that are not directly related to market movements and are therefore not easy to quantify, and as such are not represented in the analysis which follows. These risks include country risk, legal risk and credit risk. Credit risk, or the risk of loss arising from a counterparty's failure or inability to meet payment or performance terms of a contract, is a particularly significant element of an interest rate swap contract. We attempt to control this risk through analysis of our counterparties and ongoing examinations of outstanding payments and delinquencies.

We have performed a sensitivity analysis on our hedged contract assuming a hypothetical 10% adverse movement in LIBOR rates, sustained for three months. This analysis reflects the impact of such movement on the combination of our senior debt under our revolving credit facility and our interest rate derivative contracts, by multiplying the notional amount of the interest rate derivative contract by the effect of a 10% decrease in LIBOR rates, and then factoring in the offsetting interest rate savings on the underlying senior debt. As of March 22, 2002, this analysis indicated that this hypothetical movement in LIBOR rates would have resulted in a quarterly loss, net of taxes, of approximately \$110,600.

We have performed a similar sensitivity analysis on our unhedged contract assuming a hypothetical 10% adverse movement in LIBOR rates sustained for three months. This analysis reflects the impact of such movement on our interest rate derivative contracts, by multiplying the notional amount of the interest rate derivative contract by the effect of a 10% decrease in LIBOR rates. As of March 22, 2002, this analysis indicated that this hypothetical movement in LIBOR rates would have resulted in a quarterly loss, net of taxes, of approximately \$108,800.

There can be no assurance that we will continue to maintain such derivative contracts at their existing levels of coverage or that the amount of coverage maintained will cover all of our indebtedness outstanding at any such time. Therefore, there can be no assurance that the derivative contracts will meet their overall objective of reducing our interest expense. In addition, there can be no assurance that we will be successful in obtaining derivative contracts in the future on our existing or any new indebtedness.

## RECENT ACCOUNTING DEVELOPMENTS

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In 1998, the Financial Accounting Standards Board (the “FASB”) issued FAS 133, which standardized the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. In 1999, Statement of Financial Accounting Standards No. 137, “Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133—an amendment to FASB Statement 133” deferred the effective date of FAS 133 to financial statements for fiscal years beginning after June 15, 2000. We adopted FAS 133 on January 1, 2001, and reported a \$2.2 million transition adjustment, the substantial portion of which was reclassified to earnings in 2001.

In July 2001, the FASB issued Financial Accounting Standard No. 141 (“FAS 141”), “Business Combinations,” and FAS 142 (“Goodwill and Other Intangible Assets”). FAS 141 limits the method of accounting for business combinations to the purchase method and establishes new criteria for the recognition of other intangible assets. FAS 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment at least annually. We adopted FAS 141 on July 1, 2001 and FAS 142 on January 1, 2002. In accordance with FAS 141, goodwill and any other intangible assets determined to have indefinite lives that were acquired in a purchase business

combination completed after June 30, 2001 (i.e., Friess and Welch & Forbes) were not amortized from the date of their acquisition.

As a result of the effectiveness of FAS 142, FAS 141 now requires that intangibles acquired in prior business combinations be reviewed for impairment. Any impairment loss will be measured as of the date of the adoption and recognized as a cumulative effect of a change in accounting principle in the first interim period. At this time, we do not expect that the adoption of these statements will result in any reclassification of goodwill or impairment of intangible assets.

On October 3, 2001, the FASB issued Financial Accounting Standard No. 144 (“FAS 144”), “Accounting for the Impairment or Disposal of Long-Lived Assets.” FAS 144 establishes new rules for the recognition and measurement of asset impairment as well as the reporting of disposals of a business segment and the recognition of losses from the discontinuation of operations. FAS 144 will be effective for fiscal years beginning after December 15, 2001. We adopted FAS 144 on January 1, 2002. We do not believe that the adoption of FAS 144 will have a material effect on our financial statements.

## CRITICAL ACCOUNTING POLICIES

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### Intangible Assets

In allocating the purchase price of our acquisitions and assessing the recoverability of our intangible assets, we must make assumptions regarding estimated future cash flows and other factors to determine the value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges.

### Deferred Taxes

We record a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized. While we have considered future taxable income projections and ongoing tax planning strategies in assessing the need for the valuation allowance, if we determine that we could realize these assets in the future, an adjustment to the valuation allowance would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our deferred tax asset in the future, an adjustment to the valuation allowance would be charged to income in the period such determination was made.

## ECONOMIC AND MARKET CONDITIONS

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Although domestic equity markets have experienced continued volatility and steep declines over the 21-month period ended December 31, 2001, the asset management industry has experienced strong growth over the last five years.

We believe that the asset management industry will continue to grow, and that such growth will be realized at different rates in the three principal distribution channels for our Affiliates' products. For example, a recent study predicts that the number of individuals with \$500,000 to \$5 million in investable assets, which was estimated to be 6.4 million in 1999, will grow to 9.6 million by 2005. We believe that this projected trend will result in the continued growth of the asset management industry within the High Net Worth distribution channel. Further, we anticipate that the evolution of so-called "open architecture" arrangements between asset managers and unaffiliated distribution organizations will continue to have a positive impact on independent investment management organizations.

In addition, demographic trends are expected to continue to have a favorable impact on the growth in retirement assets. One financial services institution predicts that private retirement assets will grow to \$11.2 trillion by 2005, compared to \$7.0 trillion in 2000 and \$4.0 trillion in 1995. While the individual retirement account market (the assets of which are typically invested in mutual funds) is anticipated to grow at the fastest rate, the defined contribution market is expected to grow 11.8% over that period, and the defined benefit market (which is a principal component of the Institutional channel) is expected to grow 8.0%. As another example of the anticipated growth in the Institutional channel, one study predicts that endowment and foundation assets (which were approximately \$800 billion in 2000) are expected to grow at an annual rate of 8.0% through 2005.

Domestic and foreign economic conditions and general trends in business and finance, among other factors, affect the financial markets and businesses operating in the securities industry. We cannot guarantee that broader market performance will be favorable in the future. A continued decline in the financial markets or a lack of sustained growth may result in a corresponding decline in our Affiliates' performance and may cause our Affiliates to experience declining assets under management and/or fees, which would reduce cash flow distributable to us.

## INTERNATIONAL OPERATIONS

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First Quadrant Limited, a sister company to First Quadrant, L.P., is organized and headquartered in London, England. Tweedy, Browne Company LLC, which is based in New York, also maintains a research office in London. Edgehill Select Group, S.A.R.L., a subsidiary of DFD Select Group, in which we own a minority interest, is organized and headquartered in Paris. In the future, we may invest in other investment management firms which are located and/or conduct a significant part of their operations outside of the United States. There are certain risks inherent in doing business internationally, such as changes in applicable laws and regulatory requirements, difficulties in staffing and managing foreign operations, longer payment cycles, difficulties in collecting investment advisory fees receivable, political instability, fluctuations in currency exchange rates, expatriation controls and potential adverse tax consequences. There can be no assurance that one or more of such factors will not have a material adverse effect on our affiliated investment management firms that have international operations or on other investment management firms in which we may invest in the future and, consequently, on our business, financial condition and results of operations.

## INFLATION

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We do not believe that inflation or changing prices have had a material impact on our results of operations.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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For quantitative and qualitative disclosures about market risk affecting us, see "Market Risk."

## SELECTED HISTORICAL FINANCIAL DATA

Set forth below are selected financial data for the last five years. This data should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and accompanying notes included elsewhere in this Annual Report.

	For the Years Ended December 31,				
<i>(in thousands, except as indicated and per share data)</i>	1997	1998	1999	2000	2001
<b>Statement of Operations Data</b>					
Revenue	\$ 95,287	\$238,494	\$ 518,726	\$ 458,708	\$ 408,210
Net income (loss)	(8,368)	25,551	72,188	56,656	49,989
Earnings (loss) per share—diluted	(1.02)	1.33	3.18	2.49	2.20
Average shares outstanding—diluted <sup>(1)</sup>	8,236	19,223	22,693	22,749	22,732
<b>Other Financial Data</b>					
Assets under management					
(at period end, in millions)	\$ 45,673	\$ 57,731	\$ 82,041	\$ 77,523	\$ 81,006
EBITDA <sup>(2)</sup>	20,044	76,312	166,801	142,378	132,143
Cash Flow from (used in):					
Operating activities	\$ 16,205	\$ 45,424	\$ 89,119	\$ 153,711	\$ 96,174
Investing activities	(327,275)	(72,665)	(112,939)	(111,730)	(343,674)
Financing activities	327,112	28,163	54,035	(63,961)	289,267
Cash Net Income <sup>(3)</sup>	10,201	45,675	98,318	87,676	84,090
Cash earnings per share—diluted <sup>(4)</sup>	1.24	2.38	4.33	3.85	3.70
<b>Balance Sheet Data</b>					
Intangible assets <sup>(5)</sup>	\$ 392,573	\$490,949	\$ 571,881	\$ 643,470	\$ 974,956
Total assets	456,990	605,334	909,073	793,730	1,160,321
Long-term obligations	161,956	192,504	176,646	154,436	223,795
Stockholders' equity <sup>(1)</sup>	259,740	313,655	477,986	493,910	543,340

(1) In connection with our initial public offering in November 1997, we raised \$189 million from the sale of 8.7 million shares of Common Stock and 8.0 million shares of preferred stock converted to shares of Common Stock. In March 1999, we raised \$102.3 million from our sale of an additional 4.0 million shares of Common Stock.

(2) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization. EBITDA data for 1997 also excludes an extraordinary item related to the replacement of our previous credit facilities with new facilities. We believe EBITDA may be useful to investors as an indicator of our ability to service debt, make new investments and meet working capital requirements. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. EBITDA, as calculated by us, may not be consistent with computations of EBITDA by other companies.

(3) In this report, Cash Net Income represents net income plus depreciation and amortization. Cash Net Income data for 1997 also includes the extraordinary item described above in Note (2). We believe that this measure may be useful to investors as an indicator of funds available to the Company, which may be used to make new investments, repay debt obligations, repurchase shares of Common Stock or pay dividends on Common Stock. Cash Net Income is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Cash Net Income, as calculated by us, may not be consistent with computations of Cash Net Income by other companies. As discussed on page 23, beginning in 2002 our definition of Cash Net Income will be modified to "net income plus depreciation, amortization and deferred taxes."

(4) Cash earnings per share represents Cash Net Income divided by average shares outstanding.

(5) Intangible assets have increased with each new investment in an Affiliate or in an affiliated investment management firm.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
Affiliated Managers Group, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Affiliated Managers Group, Inc. at December 31, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain

reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in black ink, appearing to read "Eric W. Terhune" followed by a stylized "CPA" or similar initials.

Boston, Massachusetts  
March 28, 2002

## CONSOLIDATED BALANCE SHEETS

	December 31,	
(in thousands)	2000	2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,612	\$ 73,427
Investment advisory fees receivable	66,126	57,148
Other current assets	15,448	9,464
Total current assets	113,186	140,039
Fixed assets, net	15,346	17,802
Equity investment in Affiliate	1,816	1,732
Acquired client relationships, net of accumulated amortization of \$33,775 in 2000 and \$46,033 in 2001	199,354	319,645
Goodwill, net of accumulated amortization of \$51,939 in 2000 and \$68,113 in 2001	444,116	655,311
Other assets	19,912	25,792
Total assets	\$793,730	\$1,160,321
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 86,800	\$ 67,136
Zero coupon convertible debt	—	227,894
Senior bank debt	—	25,000
Total current liabilities	86,800	320,030
Senior bank debt	151,000	—
Mandatory convertible debt	—	200,000
Deferred taxes	31,907	38,081
Other long-term liabilities	3,436	23,795
Total liabilities	273,143	581,906
Commitments and contingencies	—	—
Minority interest	26,677	35,075
Stockholders' equity:		
Common Stock (\$.01 par value; 80,000 shares authorized; 23,519 shares outstanding in 2000 and 2001)	235	235
Additional paid-in capital	407,057	405,087
Accumulated other comprehensive income (loss)	(342)	(846)
Retained earnings	140,513	190,502
	547,463	594,978
Less treasury shares, at cost (1,477 shares in 2000 and 1,309 shares in 2001)	(53,553)	(51,638)
Total stockholders' equity	493,910	543,340
Total liabilities and stockholders' equity	\$793,730	\$1,160,321

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
<i>(dollars in thousands, except per share data)</i>	1999	2000	2001
Revenue	\$518,726	\$458,708	\$408,210
Operating expenses:			
Compensation and related expenses	217,780	174,710	134,900
Amortization of intangible assets	22,229	26,409	28,432
Depreciation and other amortization	3,901	4,611	5,669
Selling, general and administrative	53,251	68,216	73,779
Other operating expenses	8,906	10,327	11,143
	306,067	284,273	253,923
Operating income	212,659	174,435	154,287
Non-operating (income) and expenses:			
Investment and other income	(14,237)	(2,264)	(5,105)
Interest expense	11,764	15,750	14,728
	(2,473)	13,486	9,623
Income before minority interest and income taxes	215,132	160,949	144,664
Minority interest	(86,225)	(65,341)	(61,350)
Income before income taxes	128,907	95,608	83,314
Income taxes	56,719	38,952	33,325
Net income	\$ 72,188	\$ 56,656	\$ 49,989
Earnings per share—basic	\$ 3.25	\$ 2.54	\$ 2.26
Earnings per share—diluted	\$ 3.18	\$ 2.49	\$ 2.20
Average shares outstanding—basic	22,180,112	22,307,476	22,136,410
Average shares outstanding—diluted	22,693,016	22,748,595	22,732,129

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
(in thousands)	1999	2000	2001
Cash flow from operating activities:			
Net income	\$ 72,188	\$ 56,656	\$ 49,989
Adjustments to reconcile net income to net cash flow from operating activities:			
Amortization of intangible assets	22,229	26,409	28,432
Depreciation and other amortization	3,901	4,611	10,031
Deferred income tax provision	14,936	6,561	5,731
FAS 133 transition adjustment	—	—	(2,203)
Reclassification of FAS 133 adjustment to net income	—	—	1,958
Changes in assets and liabilities:			
Decrease (increase) in investment advisory fees receivable	(163,262)	182,241	15,143
Decrease (increase) in other current assets	(1,260)	(8,639)	6,347
Decrease (increase) in non-current other receivables	(10,779)	5,064	90
Increase (decrease) in accounts payable, accrued expenses and other liabilities	116,518	(87,073)	(27,742)
Increase (decrease) in minority interest	34,648	(32,119)	8,398
Cash flow from operating activities	89,119	153,711	96,174
Cash flow used in investing activities:			
Purchase of fixed assets	(6,050)	(6,235)	(7,230)
Costs of investments, net of cash acquired	(103,500)	(104,438)	(335,968)
Distributions received from Affiliate equity investment	550	428	670
Increase in other assets	(486)	(699)	(1,146)
Loans to employees	(3,453)	(786)	—
Cash flow used in investing activities	(112,939)	(111,730)	(343,674)
Cash flow from (used in) financing activities:			
Borrowings of senior bank debt	155,800	193,500	222,300
Repayments of senior bank debt	(171,800)	(217,000)	(348,300)
Repayments of notes payable to related parties	(22,000)	—	—
Issuances of debt securities	—	—	427,894
Issuances of equity securities	101,536	8,412	9,130
Repurchase of stock	(9,322)	(48,858)	(9,113)
Securities issuance costs	(179)	(15)	(12,644)
Cash flow from (used in) financing activities	54,035	(63,961)	289,267
Effect of foreign exchange rate changes on cash flow	(71)	(287)	48
Net increase (decrease) in cash and cash equivalents	30,144	(22,267)	41,815
Cash and cash equivalents at beginning of year	23,735	53,879	31,612
Cash and cash equivalents at end of year	\$ 53,879	\$ 31,612	\$ 73,427
Supplemental disclosure of cash flow information:			
Interest paid	\$ 11,654	\$ 17,025	\$ 9,727
Income taxes paid	20,576	52,415	17,732
Supplemental disclosure of non-cash financing activities:			
Stock issued for Affiliate equity purchases	—	—	2,276
Notes issued for Affiliate equity purchases	—	—	24,458
Conversion of convertible stock to Common Stock	30,992	—	—
Common Stock received for the exercise of stock options	—	1,027	—
Capital lease obligations for fixed assets	—	816	—

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

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<i>(dollars in thousands)</i>	Common Shares	Convertible Shares	Common Stock	Convertible Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Treasury Shares at Cost
December 31, 1998	17,703,617	1,750,942	\$177	\$ 30,992	\$273,413	\$ 11,685	(172,000)	\$ (2,612)
Issuance of								
Common Stock	4,000,938	—	40	—	101,496	—	—	—
Conversion of								
Convertible Stock	1,750,942	(1,750,942)	18	(30,992)	30,974	—	—	—
Purchase of								
Common Stock	—	—	—	—	—	—	(346,900)	(9,322)
Net income	—	—	—	—	—	72,188	—	—
Other comprehensive income	—	—	—	—	—	(71)	—	—
December 31, 1999	23,455,497	—	235	—	405,883	83,802	(518,900)	(11,934)
Issuance of								
Common Stock	63,547	—	—	—	1,227	—	328,938	8,266
Purchase of								
Common Stock	—	—	—	—	(53)	—	(1,287,401)	(49,885)
Net income	—	—	—	—	—	56,656	—	—
Other comprehensive income	—	—	—	—	—	(287)	—	—
December 31, 2000	23,519,044	—	235	—	407,057	140,171	(1,477,363)	(53,553)
Issuance of								
Common Stock	—	—	—	—	(1,970)	—	325,622	11,028
Purchase of								
Common Stock	—	—	—	—	—	—	(157,100)	(9,113)
Net income	—	—	—	—	—	49,989	—	—
Other comprehensive income	—	—	—	—	—	(504)	—	—
December 31, 2001	23,519,044	—	\$235	\$ —	\$405,087	\$189,656	(1,308,841)	\$(51,638)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Nature of Operations

Affiliated Managers Group, Inc. (“AMG” or the “Company”) is an asset management company with equity investments in a diverse group of mid-sized investment management firms (“Affiliates”). AMG’s Affiliates provide investment management services, primarily in the United States, to high net worth individuals, mutual funds and institutional clients.

Affiliates are either organized as limited partnerships or limited liability companies. AMG has contractual arrangements with many of its Affiliates whereby a percentage of revenue is allocable to fund Affiliate operating expenses, including compensation (the “Operating Allocation”), while the remaining portion of revenue (the “Owners’ Allocation”) is allocable to AMG and the other partners or members, generally with a priority to AMG. In certain other cases (such as, for example, The Managers Funds LLC (“Managers”)), the Affiliate is not subject to a revenue sharing arrangement, but instead operates on a profit-based model. As a result, AMG participates fully in any increase or decrease in the revenue or expenses of such firms.

All material intercompany balances and transactions have been eliminated. All dollar amounts except per share data in the text and tables herein are stated in thousands unless otherwise indicated. Certain reclassifications have been made to prior years’ financial statements to conform to the current year’s presentation.

#### Accounting for Investments

These consolidated financial statements include the accounts of AMG and each Affiliate in which AMG has a controlling interest. In each such instance, AMG is, directly or indirectly, the sole general partner (in the case of Affiliates which are limited partnerships) or sole manager member (in the case of Affiliates which are limited liability companies). For Affiliate operations consolidated into these financial statements, the portion of the Owners’ Allocation allocated to owners other than AMG is included in minority interest in the Consolidated Statements of Operations. Minority interest on the Consolidated Balance Sheets includes capital and undistributed Owners’ Allocation owned by the managers of the consolidated Affiliates.

Investments where AMG or an Affiliate does not hold a controlling interest are generally accounted for under the equity method of accounting, and AMG’s portion of net income is

included in investment and other income. Investments in which AMG or the Affiliate owns less than a 20% interest and does not exercise significant influence are accounted for under the cost method. Under the cost method, AMG’s portion of net income is not included in the Consolidated Statements of Operations and dividends are recorded when, and if, declared. Nevertheless, charges are recognized in the Consolidated Statements of Operations if events or circumstances indicate a permanent impairment of the carrying value.

#### Revenue Recognition

The Company’s consolidated revenue represents advisory fees billed monthly, quarterly and annually by Affiliates for managing the assets of clients. Asset-based advisory fees are recognized monthly as services are rendered and are based upon a percentage of the market value of client assets managed. Any fees collected in advance are deferred and recognized as income over the period earned. Performance-based advisory fees are recognized when earned based upon either the positive difference between the investment returns on a client’s portfolio compared to a benchmark index or indices, or an absolute percentage of gain in the client’s account as measured at the end of the contract period.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value due to the short-term maturity of these investments.

#### Fixed Assets

Equipment and other fixed assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives ranging from three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease.

#### Acquired Client Relationships and Goodwill

The purchase price for the acquisition of interests in Affiliates is allocated based on the fair value of net assets acquired, primarily acquired client relationships. In determining the allocation of purchase price to acquired client relationships, the Company analyzes the net present value of each acquired Affiliate’s existing client relationships based on a number of factors including: the Affiliate’s historical and potential future operating performance; the Affiliate’s historical and potential future rates of attrition

among existing clients; the stability and longevity of existing client relationships; the Affiliate's recent, as well as long-term, investment performance; the characteristics of the firm's products and investment styles; the stability and depth of the Affiliate's management team and the Affiliate's history and perceived franchise or brand value. The cost assigned to acquired client relationships is amortized using the straight-line method over a weighted average life of 22 years. The expected useful lives of acquired client relationships are analyzed separately for each acquired Affiliate and determined based on an analysis of the historical and potential future attrition rates of each Affiliate's existing clients, as well as a consideration of the specific attributes of the business of each Affiliate.

The excess of purchase price for the acquisition of interests in Affiliates over the fair value of net assets acquired, including acquired client relationships, is classified as goodwill. Prior to the adoption of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," (FAS 142), goodwill was amortized using the straight-line method over a weighted average life of 32 years. In determining the amortization period for goodwill, the Company considered a number of factors including: the firm's historical and potential future operating performance; the characteristics of the firm's clients, products and investment styles; as well as the firm's history and perceived franchise or brand value.

As further described in Note 11, the Company periodically purchases additional equity interests in Affiliates from minority interest owners. Resulting payments made to such owners are generally considered purchase price for such acquired interests. The estimated cost of equity that has been awarded in connection with employment is accrued, net of estimated forfeitures, over the service period as equity-based compensation.

#### **Debt Issuance Costs**

Debt issuance costs incurred in securing credit facility financing are amortized over the term of the credit facility using the effective interest method. Debt issuance costs incurred in issuing the zero coupon convertible securities are amortized over the period to the first investor put date. Debt issuance costs incurred in issuing the mandatory convertible securities are amortized over the period of the forward purchase contract.

#### **Interest Rate Hedging Agreements**

The Company periodically enters into interest rate hedging agreements to hedge against potential increases in interest

rates on the Company's outstanding borrowings. The Company's policy is to accrue amounts receivable or payable under such agreements as reductions or increases in interest expense, respectively.

#### **Income Taxes**

The Company recognizes deferred tax assets and liabilities for the expected consequences of temporary differences between the financial statement basis and tax basis of the Company's assets and liabilities. A deferred tax valuation allowance is established if, in management's opinion, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized.

#### **Foreign Currency Translation**

The assets and liabilities of non-U.S. based Affiliates are translated into U.S. dollars at the exchange rates in effect as of the balance sheet date. Revenue and expenses are translated at the average monthly exchange rates then in effect.

#### **Equity-Based Compensation Plans**

FAS 123, "Accounting for Stock-Based Compensation," encourages but does not require adoption of a fair value-based accounting method for stock-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 based method had been applied in measuring compensation cost. The Company continues to apply APB 25 and related interpretations and has provided pro forma FAS 123 disclosure in Note 13.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

#### **Recent Accounting Developments**

In June 1998, the Financial Accounting Standards Board (the "FASB") issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities." FAS 133 standardizes the accounting for derivative instruments which requires that all derivatives be recognized as assets and liabilities and be measured at fair value. In June 1999, FAS 137, "Accounting

for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133—an amendment to FASB Statement 133” deferred the effective date of FAS 133 to financial statements for fiscal years beginning after June 15, 2000. The Company adopted this standard on January 1, 2001, and the adoption did not materially impact its consolidated financial statements.

In July 2001, the FASB issued Financial Accounting Standard No. 141 (FAS 141), “Business Combinations,” and Financial Accounting Standard No. 142 (FAS 142), “Goodwill and Other Intangible Assets.” FAS 141 limits the method of accounting for business combinations to the purchase method and establishes new criteria for the recognition of intangible assets. FAS 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment at least annually. The Company adopted FAS 141 on July 1, 2001 and FAS 142 on January 1, 2002.

While FAS 142 generally became effective January 1, 2002, goodwill and any other intangible assets determined to have indefinite lives that were acquired in a purchase business combination completed after June 30, 2001 (i.e., the Company’s investments in Friess Associates, LLC (“Friess”) and Welch & Forbes, Inc. and Welch & Forbes (a partnership) (collectively, “Welch & Forbes”)) were not amortized from the date of their acquisition. In 2002, approximately \$19,000 of intangible amortization reported in 2001 will be discontinued as a result of the adoption of FAS 142.

Upon the effectiveness of FAS 142, FAS 141 requires that intangibles acquired in prior business combinations be reviewed for impairment. Any impairment loss will be measured as of the date of the adoption and recognized as a cumulative effect of a change in accounting principle in the first interim period. At this time, the Company does not expect that the adoption of these statements will result in any reclassification of goodwill or impairment of intangible assets.

On October 3, 2001, the FASB issued Financial Accounting Standard No. 144 (FAS 144), “Accounting for the Impairment or Disposal of Long-Lived Assets.” FAS 144 establishes new rules for the recognition and measurement of asset impairment as well as the reporting of disposals of a business segment and the recognition of losses from the discontinuation of operations. The Company adopted FAS 144 on January 1, 2002. The Company does not believe that the adoption of FAS 144 will have a material effect on its financial statements.

## 2. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and investment advisory fees receivable. The Company maintains cash and cash equivalents, short-term investments and certain off-balance sheet financial instruments with various financial institutions. These financial institutions are located in cities in which AMG and its Affiliates operate. For AMG and certain Affiliates, cash deposits at a financial institution may exceed FDIC insurance limits.

## 3. FIXED ASSETS AND LEASE COMMITMENTS

Fixed assets consist of the following:

	At December 31,	
	2000	2001
Office equipment	\$ 12,910	\$ 15,306
Furniture and fixtures	8,128	11,649
Leasehold improvements	6,091	8,181
Computer software	3,699	3,837
Total fixed assets	30,828	38,973
Accumulated depreciation	(15,482)	(21,171)
Fixed assets, net	\$ 15,346	\$ 17,802

The Company and its Affiliates lease computer equipment and office space for their operations. At December 31, 2001, the Company's aggregate future minimum payments for operating leases having initial or noncancelable lease terms greater than one year are payable as follows:

Year Ending December 31,	Required Minimum Payments
2002	\$11,750
2003	10,696
2004	9,380
2005	7,728
2006	6,281
Thereafter	18,742

Consolidated rent expense for 1999, 2000 and 2001 was \$8,906, \$10,327 and \$11,143, respectively.

In 2001, the Company entered into a lease agreement with an owner-lessor trust ("Lessor") to finance the construction of its new corporate headquarters building in Prides Crossing, Massachusetts (the "Building"). In accordance with SFAS No. 13 "Accounting for Leases" and related FASB Emerging Issues Task Force ("EITF") issues (including EITF Issue No. 90-15, "Impact of Non-substantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions" and EITF Issue No. 97-10, "The Effect of Lessee Involvement in Asset Construction"), the Building and the related lease obligations are not included on the Company's consolidated balance sheet. The initial lease term is approximately five years, beginning at the date of the completion of construction, which occurred in December 2001. At the end of the lease term, the Company has the option to extend the lease or purchase the Building for the then outstanding amounts expended by the Lessor for the Building. If the Company chooses not to extend the lease or acquire the Building, then it is contingently liable for 85% of the construction costs. The Company would also have contingent payment obligations to the Lessor if an event of default should occur during the lease period. If the Company defaults, then its obligation would equal up to 100% of the Lessor's investment in the Building, which could exceed the aforementioned contingent liability.

#### 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	At December 31,	
	2000	2001
Accounts payable	\$ 1,309	\$ 1,634
Accrued compensation	62,992	38,738
Accrued income taxes	2,683	5,615
Accrued rent	2,001	1,772
Accrued interest	369	115
Deferred revenue	1,633	1,546
Accrued professional services	1,241	764
Other	14,572	16,952
	<u>\$86,800</u>	<u>\$67,136</u>

#### 5. BENEFIT PLANS

The Company has two defined contribution plans consisting of a qualified employee profit-sharing plan covering substantially all of its full-time employees and five of its Affiliates, and a non-qualified plan for certain senior employees. Twelve of AMG's other Affiliates have separate defined contribution retirement plans. Under each of the qualified plans, AMG and each Affiliate are able to make discretionary contributions to qualified plan participants up to IRS limits. Consolidated expenses related to both the qualified and non-qualified plans in 1999, 2000 and 2001 were \$8,728, \$10,759 and \$5,669, respectively.

The Company's contribution to the non-qualified plan (the "Plan") was \$5,000, \$6,225 and \$0 for the years ended December 31, 1999, 2000 and 2001, respectively. Plan balances are invested equally between the Company's Common Stock and Affiliate investment products. These irrevocable contributions were expensed when contributed and are distributable to each participant beginning in 2002, with full vesting occurring in 2005. Realized gains on undistributed balances are paid currently to participants. Plan balances that are forfeited upon employee termination are reallocated to the remaining participants in accordance with the terms of the Plan.

## 6. DEBT

The Company has a \$330,000 revolving Credit Facility ("Credit Facility"), which matures on December 22, 2002. The Company has the option, with the consent of its lenders, to increase the facility by another \$70,000 to a total of \$400,000. Interest is payable at rates up to 1.25% over the Prime Rate or up to 2.25% over LIBOR on amounts borrowed. The Company pays a commitment fee of up to 0.5% on the daily unused portion of the facility, which amounted to \$297, \$252 and \$474 for the years ended December 31, 1999, 2000 and 2001, respectively.

The effective interest rates on the outstanding borrowings were 7.2% and 2.6% at December 31, 2000 and 2001, respectively. All borrowings under the Credit Facility are collateralized by pledges of all capital stock or other equity interests in each AMG Affiliate owned and to be acquired. The credit agreement contains certain financial covenants which require the Company to maintain specified minimum levels of net worth and interest coverage ratios and maximum levels of indebtedness, all as defined in the credit agreement. The credit agreement also limits the Company's ability to pay dividends and incur additional indebtedness.

In May 2001, the Company completed the private placement of zero coupon senior convertible notes in which it realized net proceeds of approximately \$221,000. Approximately \$101,000 of the net proceeds were used to repay debt under the Company's senior revolving credit facility, and the balance was used for other general corporate purposes. In this private placement, the Company sold a total of \$251,000 principal amount at maturity of zero coupon senior convertible notes due 2021, with each note issued at 90.50% of such principal amount and accreting at a rate of 0.50% per annum. Each security is convertible into 11.62 shares of the Company's Common Stock upon the occurrence of any of the following events: (i) if for certain six calendar-month periods, the closing sale prices of the Company's Common Stock are more than a specified price (initially \$93.53 and increasing incrementally each six calendar-month period for the next 20 years to \$94.62 on April 1, 2021); (ii) if the credit rating assigned to the securities is below a specified level; (iii) if the Company calls the securities for redemption; or (iv) if the Company takes certain corporate actions. The Company has the option to redeem the convertible notes for cash on or after May 7, 2006, and the holders may require the Company to repurchase the securities at their accreted value on May 7 of 2002, 2004, 2006, 2011 and 2016. The

purchase price for such repurchases may be in cash or shares of Common Stock. The Company currently intends to repurchase the securities with cash.

In December 2001, the Company completed a public offering of mandatory convertible debt securities (the "FELINE PRIDES"), in which the Company realized net proceeds of approximately \$194,000. In January 2002, the sale of an over-allotment of these securities increased the Company's total net proceeds to \$223,000. Approximately \$183,000 of the net proceeds were used to repay debt under the Company's senior revolving credit facility, and the balance was used for other general corporate purposes. Each FELINE PRIDE initially consists of a unit referred to as an Income PRIDE, including (i) a senior note due November 17, 2006 with a principal amount of \$25 per note, on which the Company will pay interest quarterly at the initial annual rate of 6%, and (ii) a forward purchase contract pursuant to which the holder has agreed to purchase, for \$25 per share, shares of Common Stock on November 17, 2004, with such number of shares to be determined based upon the average trading price of Common Stock for a period preceding that date.

Each of the senior notes is pledged to the Company to collateralize the holder's obligations under the forward purchase contracts. A holder of an Income PRIDE can obtain the release of the pledged senior notes by substituting certain zero coupon treasury securities as security for performance under the forward purchase contract. The resulting unit consisting of the zero coupon treasury security and the forward purchase contract would be a Growth PRIDE, and the senior notes would be a separate security. In August 2004, the senior notes will be remarketed, and the interest rate will be reset, such that the total proceeds will be \$230,000. The holders will use the proceeds of the remarketing to fund their obligations to purchase shares of Common Stock under the forward purchase contract. The number of shares of Common Stock to be issued will be determined by the price of Common Stock at that time, subject to the total proceeds from the remarketing equaling \$230,000.

In connection with the purchase of additional Affiliate equity interests in 2001, the Company has issued \$17,157 of notes to Affiliate partners. Of this amount, \$1,838 is due in 2002 and is included in accounts payable and accrued liabilities. The balance of these notes, which is included in other long-term liabilities, bears interest at a weighted average interest rate of 5.9% and has maturities that range from 2003 to 2006.

During February 2001, the Company became a party, with two major commercial banks as counterparties, to \$50,000 notional amount of swap contracts that are linked to the three-month LIBOR. Under these swaps, the Company has agreed to exchange the difference between fixed-rate and floating rate interest amounts calculated by reference to the \$50,000 notional amount. These contracts cap interest rates on the notional amounts at rates ranging between 4.95% and 5.14%.

## 7. INCOME TAXES

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

	Year Ended December 31,		
	1999	2000	2001
Federal: Current	\$35,658	\$27,854	\$24,144
Deferred	12,762	5,606	5,016
State: Current	6,125	4,537	3,450
Deferred	2,174	955	715
Provision for income taxes	\$56,719	\$38,952	\$33,325

The effective income tax rate differs from the amount computed on income before income taxes by applying the U.S. federal income tax rate because of the effect of the following items:

	Year Ended December 31,		
	1999	2000	2001
Tax at U.S. federal income tax rate	35%	35%	35%
Nondeductible expenses	3	2	2
State income taxes, net of federal benefit	7	4	3
Valuation allowance	(1)	—	—
	44%	41%	40%

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

	December 31,	
	2000	2001
Deferred assets (liabilities):		
State net operating loss carryforwards	\$ 1,281	\$ 2,345
Intangible amortization	(35,089)	(43,067)
Deferred compensation	1,934	1,716
Accruals	1,248	2,721
	(30,626)	(36,285)
Valuation allowance	(1,281)	(1,796)
Net deferred income taxes	\$(31,907)	\$(38,081)

At December 31, 2001, the Company had state net operating loss carryforwards of \$49,962, which expire over a period of 15 years beginning in the year 2002. The realization of these carryforwards is dependent on generating sufficient taxable income prior to their expiration. The valuation allowance at December 31, 2000 and 2001 is related to the uncertainty of the realization of these loss carryforwards.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2001, the Company adopted Financial Accounting Standard No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by Financial Accounting Standard No. 138, "Accounting For Certain Derivative Instruments and Certain Hedging Activities." FAS 133 requires that all derivatives be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The cumulative effect of adopting FAS 133 was not material to the Company's consolidated financial statements.

The Company is exposed to interest rate risk inherent in its variable rate debt liabilities. The Company's risk management strategy uses financial instruments, specifically interest rate swap contracts, to hedge certain interest rate exposures. In entering into these contracts, AMG intends to offset cash flow gains and losses that occur on its existing debt liabilities with cash flow losses and gains on the contracts hedging these liabilities. The Company agrees with a counterparty (typically a major commercial bank) to exchange the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount.

The Company records all derivatives on the balance sheet at fair value. As the Company's hedges are designated and qualify as cash flow hedges, the effective portion of the unrealized gain or loss on the derivative instrument is recorded in accumulated other comprehensive income as a separate component of stockholders' equity and reclassified into earnings upon the periodic settlement of variable rate liabilities. For interest rate swaps, 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, both of which are based on LIBOR rates. To the extent that the critical terms of the hedged item and the derivative are not identical, hedge ineffectiveness is reported in earnings as interest expense. Hedge ineffectiveness was not material in 2001.

At December 31, 2001, the net fair value of the Company's interest rate swap liability attributable to \$50,000 notional amount of interest rate swap contracts was \$1,383, which was recorded on the consolidated balance sheet in accounts payable and accrued liabilities. AMG estimates the fair values of derivatives based on quoted market prices. In December 2001, the Company repaid \$25,000 of its outstanding variable rate debt, which was designated as a hedged item for the Company's open hedge contracts. As a result, \$25,000 notional amount of the Company's interest rate swap contracts were deemed not to be hedging instruments. The Company reclassified \$425, net of taxes, from accumulated other comprehensive income to earnings. In February 2002, the Company closed \$25,000 notional amount of its interest rate swap contracts and entered into a new \$25,000 notional amount interest rate swap contract with a major commercial bank as counterparty to exchange the difference between fixed rate and floating rate interest amounts calculated by reference to the notional amount.

At December 31, 2001, the Company had recorded approximately \$552 of net unrealized losses on derivative instruments, net of taxes, in accumulated other comprehensive income. AMG expects that approximately 100% of these losses will be reclassified to earnings within one year.

## 9. COMPREHENSIVE INCOME

The Company's comprehensive income includes net income, changes in unrealized foreign currency gains and losses and changes in unrealized gains and losses on derivative instruments, which also include the cumulative effect of adopting FAS 133. Comprehensive income, net of taxes, was as follows:

	For the Year Ended December 31,		
	1999	2000	2001
Net income	\$72,188	\$56,656	\$49,989
Change in unrealized foreign currency gains (losses)	(71)	(287)	48
Change in net unrealized loss on derivative instruments	—	—	(830)
Reclassification of unrealized loss on derivative instruments to net income	—	—	425
Cumulative effect of change in accounting principle—FAS 133 transition adjustment	—	—	(1,321)
Reclassification of FAS 133 transition adjustment to net income	—	—	1,174
Comprehensive income	\$72,117	\$56,369	\$49,485

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

	December 31,	
	2000	2001
Foreign currency translation adjustment	\$(342)	\$(294)
Unrealized loss on derivative instruments	—	(552)
Accumulated other comprehensive income (loss)	\$(342)	\$(846)

## 10. 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 unfavorably to the Company or its Affiliates. The Company and its Affiliates establish accruals

for matters that are 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.

## 11. ACQUISITIONS

On October 31, 2001, the Company acquired 51% of Friess. The results of Friess' operations have been included in the consolidated financial statements since that date. Friess is an investment adviser to the Brandywine family of mutual funds and institutional accounts and is based in Delaware, Wyoming and Arizona.

A summary of the fair values of the net assets acquired in this acquisition is as follows:

Current assets, net	\$ 3,239
Fixed assets	433
Acquired client relationships	110,475
Goodwill	130,638
Total purchase price, including acquisition costs	\$244,785

The fair value of amortizable acquired client relationships of \$13,221 will be amortized over 15 years, and the remaining acquired client relationships that are attributable to mutual fund management contracts will not be amortized. All of these intangible assets are deductible for tax purposes.

Also in 2001, the Company made the following investments, for a total cost of \$124,211, which was paid in cash, notes payable issued, and the Company's Common Stock:

- a 60% voting interest in Welch & Forbes, a Boston-based investment adviser to personal trusts, high net worth families and charitable foundations;
- through The Renaissance Group LLC, a 60% interest in Bowling Portfolio Management, a Cincinnati-based investment adviser to institutional and high net worth clients;
- a minority interest in DFD Select Group, a Paris-based sponsor of an Irish-registered and listed umbrella trust of hedge funds; and
- several additional purchases of management equity in existing Affiliates.

Goodwill recognized in these transactions amounted to \$96,731, all of which is deductible for tax purposes.

In January 2000, the Company acquired an equity interest in Frontier Capital Management Company, LLC. In January 1999, the Company acquired an equity interest in Rorer Asset Management, LLC and substantially all of the equity interests in Managers. The Company financed these investments with borrowings under its credit facility. In 2000, the cost of the Company's investments (net of cash acquired) was \$104,438, which was allocated \$6,439 to tangible equity and \$97,999 to intangible assets. In 1999, the cost of the Company's investments (net of cash acquired) was \$103,500, which was allocated \$340 to tangible equity and \$103,160 to intangible assets.

Unaudited pro forma data for the years ended December 31, 2000 and 2001 are set forth below, giving consideration to the acquisitions occurring in the respective two-year period as if such transactions occurred as of the beginning of 2000, assuming revenue sharing arrangements had been in effect for the entire period and after making certain other pro forma adjustments.

	Year Ended December 31,	
	2000	2001
Revenue	\$581,287	\$490,267
Net income	74,433	61,379
Earnings per share—basic	\$ 3.34	\$ 2.77
Earnings per share—diluted	3.27	2.70

In conjunction with certain acquisitions, the Company has entered into agreements and is contingently liable, upon achievement of specified financial targets, to make additional purchase payments of up to \$17,700 plus interest, as applicable. These contingent payments, if required, will be settled for cash with most coming due beginning April 1, 2002 and will be accounted for as an adjustment to the purchase price of the Affiliate.

As part of all of the Company's operating agreements (except that of Paradigm Asset Management Company, L.L.C.), Affiliate managers have rights that require AMG to purchase their retained equity interests at certain intervals. The Company is also obligated to purchase all remaining interests held by an Affiliate manager (each, a "Purchase," and collectively, the "Purchases") upon his or her death, disability or termination of employment. Purchases are generally calculated based on a multiple of the Affiliate's Owners Allocation, which is intended to represent fair value. In addition, to ensure the availability of continued ownership participation for future key employees, the Company can purchase certain equity interests retained by Affiliate managers. At December 31, 2001, the maximum

amount of the Company's obligations under these arrangements equaled approximately \$660,000. Assuming the closing of all such transactions, AMG would own the prospective Owners' Allocation of all interests owned by Affiliate managers so purchased, currently estimated to represent approximately \$86,000 on an annualized basis.

## 12. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table reflects the components of intangible assets as of December 31, 2001:

	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Acquired client relationships	\$209,279	\$35,193
Non-amortized intangible assets:		
Acquired client relationships— mutual fund management contracts	156,399	10,840
Goodwill	723,424	68,113

In accordance with FAS 142, goodwill will no longer be amortized beginning January 1, 2002. In addition, acquired client relationships determined to have indefinite lives will no longer be amortized. The Company has not yet completed its impairment testing of goodwill as of January 1, 2002.

Amortization expense was \$26,409 and \$28,432 for the years ended December 31, 2000 and 2001, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows:

Fiscal Year ended December 31,	Estimated Amortization Expense
2002	\$12,300
2003	12,300
2004	11,100
2005	10,900
2006	10,900

## 13. STOCKHOLDERS' EQUITY

### Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of Preferred Stock in classes or series and to fix the designations, powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereon as set forth in the Certificate. Any such Preferred Stock issued by the Company may rank prior to the Common Stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of Common Stock.

### Common Stock

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

On April 20, 2000, the Company announced that its Board of Directors had authorized a share repurchase program pursuant to which AMG can repurchase up to 5% of its issued and outstanding shares of Common Stock in open market transactions, with the timing of purchases and the amount of stock purchased determined at the discretion of AMG's management. The Board of Directors authorized a similar repurchase program in 1999. In the year ended December 31, 2001, AMG had repurchased 157,100 shares of Common Stock at an average price of \$57.97. In the year ended December 31, 2000, the Company repurchased 1,261,800 shares of Common Stock at an average price of \$38.68.

### Stock Incentive Plan

The Company has established the 1997 Stock Option and Incentive Plan (as amended), under which it is authorized to grant stock options and grant or sell a limited number of shares of restricted stock to employees and directors. In 2001, stockholders approved an amendment to increase to 4,550,000 the shares available to be issued under this plan.

The plan is administered by a committee of the Board of Directors. The exercise price of stock options is the fair market value of the Common Stock on the date of grant. The stock options generally vest over periods ranging up to four years and expire seven to ten years after the grant date.

The following table summarizes the transactions of the Company's stock option plans for the three-year period ended December 31, 2001.

	Number of Shares	Weighted Average Exercise Price
Unexercised options outstanding— December 31, 1998	1,171,750	\$26.34
Activity in 1999		
Options granted	845,000	28.86
Options exercised	(938)	21.65
Options forfeited	(562)	14.25
Unexercised options outstanding— December 31, 1999	2,015,250	\$27.40
Activity in 2000		
Options granted	869,000	49.86
Options exercised	(324,225)	21.46
Options forfeited	(100,875)	29.80
Unexercised options outstanding— December 31, 2000	2,459,150	\$36.02
Activity in 2001		
Options granted	1,190,750	63.68
Options exercised	(213,617)	28.17
Options forfeited	(24,875)	38.28
Unexercised options outstanding— December 31, 2001	3,411,408	\$46.15
Exercisable options—		
December 31, 1999	887,750	\$24.62
December 31, 2000	1,011,460	\$30.84
December 31, 2001	1,475,870	\$36.69

The following table summarizes information about the Company's stock options at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of 12/31/01	Weighted Avg. Remaining Contractual Life (years)	Weighted Avg. Exercise Price	Exercisable as of 12/31/01	Weighted Avg. Exercise Price
\$10-20	2,300	6.8	\$14.25	2,300	\$14.25
20-30	1,101,358	7.2	27.13	713,233	26.26
30-40	301,750	6.5	34.71	279,560	34.67
40-50	415,500	9.0	47.88	121,374	47.89
50-60	996,750	7.5	56.07	352,373	55.21
60-70	37,500	9.1	62.00	7,030	62.00
70-80	556,250	7.0	70.03	—	—
	3,411,408	7.4	\$46.15	1,475,870	\$36.69

### Supplemental Disclosure for Equity-Based Compensation

The Company continues to apply APB 25 and related interpretations in accounting for equity-based compensation arrangements. FAS 123 defines a fair value method of accounting for the above arrangements whose impact requires disclosure. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the expected service period.

Had compensation costs for the Company's equity-based compensation arrangements been determined based on the fair value at grant date for awards consistent with the requirements of FAS 123, the Company's net income and net income per share would have been as follows:

	Year Ended December 31,		
	1999	2000	2001
Net income— as reported	\$72,188	\$56,656	\$49,989
Net income— FAS 123 pro forma	68,463	48,962	41,192
Net income per share—basic— as reported	3.25	2.54	2.26
Net income per share—basic— FAS 123 pro forma	3.09	2.19	1.85
Net income per share—diluted— as reported	3.18	2.49	2.20
Net income per share—diluted— FAS 123 pro forma	3.02	2.15	1.81

The weighted average fair value of options granted in the years ended December 31, 1999, 2000 and 2001 were estimated at \$15.62, \$26.11 and \$15.69 per option, respectively, using the Black-Scholes option pricing model. The following weighted average assumptions were used for the option valuations.

	Year Ended December 31,		
	1999	2000	2001
Dividend yield	0.0%	0.0%	0.0%
Stock price volatility	50.8%	53.3%	30.0%
Risk-free interest rate	5.5%	5.7%	4.4%
Expected life of options (in years)	8.4	7.2	5.0

## 14. EARNINGS PER SHARE

The calculation for basic earnings per share is based on the weighted average of common shares outstanding during the period. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations. Unlike all other dollar amounts in these footnotes, net income in this table is not presented in thousands.

	1999	2000	2001
Numerator:			
Net income	\$72,188,000	\$56,656,000	\$49,989,000
Denominator:			
Average shares outstanding—basic	22,180,112	22,307,476	22,136,410
Incremental shares for convertible preferred stock	374,174	—	—
Incremental shares for stock options	138,730	441,119	595,719
Average shares outstanding—diluted	22,693,016	22,748,595	22,732,129
Earnings per share:			
Basic	\$3.25	\$2.54	\$2.26
Diluted	\$3.18	\$2.49	\$2.20

On May 25, 2000, the Company's shareholders approved an increase in the number of authorized shares of voting Common Stock from 40,000,000 to 80,000,000.

For the years ended December 31, 1999, 2000 and 2001, the Company repurchased a total of 346,900, 1,261,800 and 157,100 shares of Common Stock under various stock repurchase programs.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to market risks brought on by changes in interest rates. Derivative financial instruments are used by the Company to reduce those risks, as explained in this Note.

### (a) Notional amounts and credit exposures of derivatives

The notional amount of derivatives do not represent amounts that are exchanged by the parties, and thus are not a measure of the Company's exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on other terms of the interest rate swap derivatives, and the volatility of these rates and prices.

The Company would be exposed to credit-related losses in the event of nonperformance by the counter parties that issued the financial instruments. The Company does not expect that the counter parties to interest rate swaps will fail to meet their obligations, given their high credit ratings. The credit exposure of derivative contracts is represented by the positive fair value of contracts at the reporting date, reduced by the effects of master netting agreements. The Company generally does not give or receive collateral on interest rate swaps because of its own credit rating and that of its counterparties.

### (b) Interest Rate Risk Management

The Company enters into interest rate swaps to reduce exposure to interest rate risk connected to existing liabilities. The Company does not hold or issue derivative financial instruments for trading purposes. Interest rate swaps allow the Company to achieve a level of variable-rate and fixed-rate debt that is acceptable to management, and to cap interest rate exposure. The Company agrees with another party to exchange the difference between fixed-rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

### (c) Fair Value

FAS 107, "Disclosures about Fair Value of Financial Instruments," requires the Company to disclose the estimated fair values for certain of its financial instruments. Financial instruments include items such as loans, interest rate contracts, notes payable and other items as defined in FAS 107.

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are used when available, otherwise, management estimates fair value based on prices of financial instruments with similar characteristics or using valuation techniques such as discounted cash flow models. Valuation techniques involve uncertainties and require assumptions and judgments regarding prepayments, credit risk and discount rates. Changes in these assumptions will

result in different valuation estimates. The fair value presented would not necessarily be realized in an immediate sale; nor are there plans to settle liabilities prior to contractual maturity. Additionally, FAS 107 allows companies to use a wide range of valuation techniques; therefore, it may be difficult to compare the Company's fair value information to other companies' fair value information.

The carrying amount of cash and cash equivalents approximates fair value because of the short-term nature of these instruments. The carrying value of notes receivable approximates fair value because interest rates and other terms are at market rates. The carrying value of notes payable approximates fair value principally because of the short-term nature of the note. The carrying value of senior bank debt approximates fair value because the debt is a revolving credit facility with variable interest based on short-term LIBOR rates. The fair market value of the zero coupon convertible debt at December 31, 2001 was \$246,608. The carrying value of the mandatory convertible debt approximates fair value. The fair values of interest rate hedging agreements are quoted market prices based on the estimated amount necessary to terminate the agreements. The fair market values of interest rate hedging agreements were (\$1,105) and (\$1,383) at December 31, 2000 and 2001, respectively.

## 16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations of the Company for 2000 and 2001.

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$114,798	\$110,895	\$118,205	\$114,810
Operating income	43,935	41,980	43,841	44,679
Income before income taxes	23,415	23,180	24,369	24,644
Net income	13,815	13,677	14,378	14,786
Earnings per share—diluted	\$ 0.60	\$ 0.61	\$ 0.64	\$ 0.65

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$100,475	\$100,663	\$ 96,584	\$110,488
Operating income	37,312	37,890	35,674	43,411
Income before income taxes	19,883	21,845	20,585	21,001
Net income	11,930	13,107	12,352	12,600
Earnings per share—diluted	\$ 0.53	\$ 0.58	\$ 0.54	\$ 0.55

During each quarter of 2001, the Company experienced a decrease in revenue, operating income and income before income taxes from the same period in 2000 primarily as a result of declines in the value of assets under management, which resulted principally from a broad decline in the equity markets. These declines were partially offset by revenue generated by positive net client cash flows in directly managed assets.

## 17. RELATED PARTY TRANSACTIONS

During 1998, the Company initiated an employee loan program. Loans to employees accrue interest at the lower of 6.25% or the Applicable Federal Rate, have a stated 30-year maturity date and are collateralized by real property. Outstanding balances are payable in full generally one year after termination of employment with the Company. At December 31, 2000 and 2001, loans outstanding, including accrued interest, totaled \$5,939 and \$6,220, respectively.

## 18. SEGMENT INFORMATION

Statement of Financial Accounting Standards No. 131 (FAS 131), "Disclosures about Segments of an Enterprise and Related Information," 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: High Net Worth, Mutual Fund and Institutional.

Revenue in the High Net Worth distribution channel is earned from relationships with wealthy individuals, family trusts and managed account ("wrap") programs. Revenue in the Mutual Fund distribution channel is earned from advisory and sub-advisory relationships with mutual funds. Revenue in the Institutional distribution channel is earned from relationships with foundations and endowments, defined benefit and defined contribution plans and Taft-Hartley plans. Expenses reported by Affiliates in segment operating results are generally limited to the Operating Allocation attributable to the revenue earned by the Affiliate in the particular distribution channel. All other operating expenses, except intangible amortization, have been allocated to segments based on the proportion of aggregate EBITDA Contribution reported by Affiliates in each segment.

Affiliated Managers Group, Inc.

1999	High Net Worth	Mutual Fund	Institutional	Total
Revenue	\$177,875	\$ 76,425	\$264,426	\$ 518,726
Operating expenses:				
Depreciation and amortization	7,268	6,592	12,270	26,130
Other operating expenses	95,601	36,069	148,267	279,937
	102,869	42,661	160,537	306,067
Operating income	75,006	33,764	103,889	212,659
Non-operating (income) and expenses:				
Investment and other income	(12,231)	(296)	(1,710)	(14,237)
Interest expense	4,532	2,000	5,232	11,764
	(7,699)	1,704	3,522	(2,473)
Income before minority interest and income taxes	82,705	32,060	100,367	215,132
Minority interest	(31,206)	(11,613)	(43,406)	(86,225)
Income before income taxes	51,499	20,447	56,961	128,907
Income taxes	22,660	8,996	25,063	56,719
Net income	\$ 28,839	\$ 11,451	\$ 31,898	\$ 72,188
Total assets	\$269,777	\$200,295	\$439,001	\$ 909,073
Goodwill	\$ 95,988	\$127,384	\$162,010	\$ 385,382
2000				
Revenue	\$138,930	\$ 97,410	\$222,368	\$ 458,708
Operating expenses:				
Depreciation and amortization	8,094	7,551	15,375	31,020
Other operating expenses	74,873	53,548	124,832	253,253
	82,967	61,099	140,207	284,273
Operating income	55,963	36,311	82,161	174,435
Non-operating (income) and expenses:				
Investment and other income	1,226	(606)	(2,884)	(2,264)
Interest expense	5,669	3,438	6,643	15,750
	6,895	2,832	3,759	13,486
Income before minority interest and income taxes	49,068	33,479	78,402	160,949
Minority interest	(16,293)	(12,086)	(36,962)	(65,341)
Income before income taxes	32,775	21,393	41,440	95,608
Income taxes	13,354	8,716	16,882	38,952
Net income	\$ 19,421	\$ 12,677	\$ 24,558	\$ 56,656
Total assets	\$195,880	\$194,163	\$403,687	\$ 793,730
Goodwill	\$103,116	\$124,217	\$216,783	\$ 444,116
2001				
Revenue	\$133,780	\$113,621	\$160,809	\$ 408,210
Operating expenses:				
Depreciation and amortization	8,861	8,569	16,671	34,101
Other operating expenses	71,475	60,812	87,535	219,822
	80,336	69,381	104,206	253,923
Operating income	53,444	44,240	56,603	154,287
Non-operating (income) and expenses:				
Investment and other income	(977)	(1,545)	(2,583)	(5,105)
Interest expense	5,346	4,120	5,262	14,728
	4,369	2,575	2,679	9,623
Income before minority interest and income taxes	49,075	41,665	53,924	144,664
Minority interest	(18,116)	(15,583)	(27,651)	(61,350)
Income before income taxes	30,959	26,082	26,273	83,314
Income taxes	12,384	10,433	10,508	33,325
Net income	\$ 18,575	\$ 15,649	\$ 15,765	\$ 49,989
Total assets	\$294,053	\$381,882	\$484,386	\$1,160,321
Goodwill	\$169,429	\$214,741	\$271,141	\$ 655,311

## COMMON STOCK INFORMATION

### Market for Registrant's Common Equity and Related Stockholder Matters

Our Common Stock is traded on the New York Stock Exchange (symbol: AMG). The following table sets forth the high and low closing prices as reported on the New York Stock Exchange composite tape since January 1, 2000.

2000	High	Low
First Quarter	\$50.00	\$33.00
Second Quarter	45.50	31.38
Third Quarter	64.25	42.50
Fourth Quarter	63.63	44.19
2001		
First Quarter	\$62.00	\$44.00
Second Quarter	63.90	43.60
Third Quarter	71.90	55.01
Fourth Quarter	73.34	56.79
2002		
First Quarter	\$73.64	\$65.55

The closing price for a share of our Common Stock on the New York Stock Exchange on March 22, 2002 was \$72.39.

As of December 31, 2001, there were 54 stockholders of record. As of March 22, 2002, there were 46 stockholders of record.

We have not declared a dividend with respect to the periods presented. Since we intend to retain earnings to finance investments in new Affiliates, repay indebtedness, pay interest and income taxes, repurchase our Common Stock when appropriate and develop our existing business, we do not anticipate paying cash dividends on our Common Stock in the foreseeable future. Our credit facility also prohibits us from making dividend payments to our stockholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

# SHAREHOLDER INFORMATION

## Corporate Offices

Affiliated Managers Group, Inc.  
600 Hale Street  
Prides Crossing, Massachusetts 01965  
(617) 747-3300  
[www.amg.com](http://www.amg.com)

## Independent Accountants

PricewaterhouseCoopers LLP  
Boston, Massachusetts

## Transfer Agent and Registrar

Mellon Investor Services  
New York, New York

## Stock Exchange Listing

New York Stock Exchange  
Ticker Symbol: AMG

## Annual Meeting

The Annual Meeting of Stockholders will be held at the offices of Goodwin Procter LLP, Exchange Place, Boston, Massachusetts, on June 4, 2002.

## Form 10-K

Copies of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by requesting them from:

Investor Relations  
Affiliated Managers Group, Inc.  
600 Hale Street  
Prides Crossing, Massachusetts 01965

This Annual Report to Stockholders contains forward-looking statements. There are a number of important factors that could cause AMG's actual results to differ materially from those indicated by such forward-looking statements including, but not limited to, those listed elsewhere in this Annual Report and in the Section titled "Business – Cautionary Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 as filed with the Securities and Exchange Commission.

## Board of Directors

William J. Nutt  
Chairman and Chief Executive Officer

Sean M. Healey  
President and Chief Operating Officer

Richard E. Floor  
Partner,  
Goodwin Procter LLP

Stephen J. Lockwood  
Managing Partner,  
Stephen J. Lockwood & Company, LLC

Harold J. Meyerman  
Private Investor

Rita M. Rodriguez  
Former Director,  
Export-Import Bank of the United States

William F. Weld, Esq.  
Partner,  
Leeds Weld & Company

## Executive Officers

William J. Nutt  
Chairman and Chief Executive Officer

Sean M. Healey  
President and Chief Operating Officer

Seth W. Brennan  
Executive Vice President, New Investments

Darrell W. Crate  
Executive Vice President and Chief Financial Officer

Nathaniel Dalton  
Executive Vice President, Affiliate Development  
and General Counsel



**AFFILIATED MANAGERS GROUP, INC.**

[www.amg.com](http://www.amg.com)

