Manning & Napier, Inc.
Form 10-Q
August 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-35355

MANNING & NAPIER, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	45-2609100 (I.R.S. Employer Identification No.)
290 Woodcliff Drive Fairport, New York (Address of principal executive offices)	14450 (Zip Code)

Registrant's telephone number, including area code:
(585) 325-6880

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 3, 2016
Class A common stock, $0.01 par value per share	15,032,880
Class B common stock, $0.01 par value per share	1,000

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In this Quarterly Report on Form 10-Q, “we”, “our”, “us”, the “Company”, “Manning & Napier” and the “Registrant” refers to Manning & Napier, Inc. and, unless the context otherwise requires, its consolidated direct and indirect subsidiaries and predecessors.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
Manning & Napier, Inc.
Consolidated Statements of Financial Condition
(In thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$ 117,664	$ 117,591
Accounts receivable	17,209	15,807
Accounts receivable—affiliated mutual funds	7,095	8,473
Due from broker	—	3,962
Due from broker - consolidated funds	—	3,510
Investment securities	18,062	21,460
Investment securities - consolidated funds	999	1,107
Prepaid expenses and other assets	4,482	4,638
Total current assets	165,511	176,548
Property and equipment, net	6,315	6,299
Net deferred tax assets, non-current	44,855	46,649
Goodwill	4,833	871
Other long-term assets	9,802	429
Total assets	$ 231,316	$ 230,796
Liabilities		
Accounts payable	$ 1,990	$ 1,141
Accrued expenses and other liabilities	34,218	42,480
Deferred revenue	10,469	10,938
Total current liabilities	46,677	54,559
Other long-term liabilities	7,183	2,796
Amounts payable under tax receivable agreement, non-current	38,679	38,661
Total liabilities	92,539	96,016
Commitments and contingencies (Note 10)		
Shareholders’ equity		
Class A common stock, $0.01 par value; 300,000,000 shares authorized; 15,032,880 and 14,755,130 issued and outstanding at June 30, 2016 and December 31, 2015, respectively	150	148
Class B common stock, $0.01 par value; 2,000 shares authorized, 1,000 shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	203,809	205,760
Retained deficit	(36,880)	(37,149)
Accumulated other comprehensive income	3	(3)
Total shareholders’ equity	167,082	168,756
Noncontrolling interests	(28,305)	(33,976)
Total shareholders’ equity and noncontrolling interests	138,777	134,780
Total liabilities, shareholders’ equity and noncontrolling interests	$ 231,316	$ 230,796

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

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Manning & Napier, Inc.
Consolidated Statements of Operations
(In thousands, except share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues				
Investment management services revenue	$67,541	$ 86,973	$132,079	$177,399
Expenses				
Compensation and related costs	24,379	28,309	46,346	55,127
Distribution, servicing and custody expenses	11,986	15,840	23,324	32,672
Other operating costs	8,213	9,036	16,666	17,978
Total operating expenses	44,578	53,185	86,336	105,777
Operating income	22,963	33,788	45,743	71,622
Non-operating income (loss)				
Interest expense	(106)	(81)	(212)	(84)
Interest and dividend income	180	158	316	321
Change in liability under tax receivable agreement	—	—	(18)	(17)
Net gains (losses) on investments	206	(1,576)	1,272	(963)
Total non-operating income (loss)	280	(1,499)	1,358	(743)
Income before provision for income taxes	23,243	32,289	47,101	70,879
Provision for income taxes	1,545	2,081	3,219	4,560
Net income attributable to controlling and noncontrolling interests	21,698	30,208	43,882	66,319
Less: net income attributable to noncontrolling interests	19,093	26,705	38,859	59,507
Net income attributable to Manning & Napier, Inc.	$2,605	$ 3,503	$5,023	$6,812
Net income per share available to Class A common stock				
Basic	$0.17	$ 0.24	$0.34	$0.48
Diluted	$0.17	$ 0.23	$0.33	$0.47
Weighted average shares of Class A common stock outstanding				
Basic	13,960,768	13,739,923	13,852,949	13,726,804
Diluted	14,243,579	14,002,133	14,209,811	13,965,655
Cash dividends declared per share of Class A common stock	$0.16	$ 0.16	$0.32	$0.32

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

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Manning & Napier, Inc.
Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income attributable to controlling and noncontrolling interests	$21,698	$30,208	$43,882	$66,319
Net unrealized holding gain (loss) on investment securities, net of tax	3	—	6	(1)
Comprehensive income	$21,701	$30,208	$43,888	$66,318
Less: Comprehensive income attributable to noncontrolling interests	19,096	26,705	38,865	59,506
Comprehensive income attributable to Manning & Napier, Inc.	$2,605	$3,503	$5,023	$6,812

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

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Manning & Napier, Inc.
Consolidated Statements of Shareholders' Equity
(In thousands, except share data)
(Unaudited)

	Common Stock – class A		Common Stock – class B						
	Shares	Amount	Shares	Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
Balance—December 31, 2014	13,713,540	$ 137	1,000	$ —	$ 209,284	$ (41,087)	$ —	$ (19,623)	$ 148,711
Net income	—	—	—	—	—	6,812	—	59,507	66,319
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(52,908)	(52,908)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(1)	—	(1)
Common stock issued under equity compensation plan	1,071,590	11	—	—	(11)	—	—	—	—
Equity-based compensation	—	—	—	—	392	—	—	2,117	2,509
Dividends declared on Class A common stock - $0.32 per share	—	—	—	—	—	(4,559)	—	—	(4,559)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests	—	—	—	—	(4,394)	—	—	(33,326)	(37,720)
Balance—June 30, 2015	14,785,130	$ 148	1,000	$ —	$ 205,271	$ (38,834)	$ (1)	$ (44,233)	$ 122,351
Balance—December 31, 2015	14,755,130	$ 148	1,000	$ —	$ 205,760	$ (37,149)	$ (3)	$ (33,976)	$ 134,780
Net income	—	—	—	—	—	5,023	—	38,859	43,882
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(20,153)	(20,153)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	6	—	6
Common stock issued under equity compensation plan, net of forfeitures	277,750	2	—	—	(2)	—	—	—	—
Shares withheld to satisfy tax withholding requirements related to restricted stock units granted	—	—	—	—	(162)	—	—	(791)	(953)

Equity-based compensation	—	—	—	—	357	—	—	1,747	2,104
Dividends declared on Class A common stock - $0.32 per share	—	—	—	—	—	(4,754)	—	—	(4,754)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests (Note 4)	—	—	—	—	(2,144)	—	—	(13,991)	(16,135)
Balance—June 30, 2016	15,032,880	$ 150	1,000	$ —	$ 203,809	$ (36,880)	$ 3	$ (28,305)	$ 138,777

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

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Manning & Napier, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six months ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$43,882	$66,319
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	2,104	2,509
Depreciation and amortization	1,133	1,255
Change in amounts payable under tax receivable agreement	18	17
Net (gains) losses on investment securities	(1,272)	963
Deferred income taxes	1,794	1,300
Amortization of debt issuance costs	78	26
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	1,701	3,762
Accounts receivable—affiliated mutual funds	1,398	3,581
Due from broker - consolidated funds	3,795	(5,000)
Investment securities - consolidated funds	—	(1,000)
Prepaid expenses and other assets	367	2,037
Accounts payable	(523)	(1,747)
Accrued expenses and other liabilities	(10,596)	(8,186)
Deferred revenue	(469)	(451)
Other long-term liabilities	(243)	(122)
Net cash provided by operating activities	43,167	65,263
Cash flows from investing activities:		
Purchase of property and equipment	(147)	(450)
Sale of investments	7,283	6,645
Purchase of investments	(2,849)	(4,967)
Due from broker	4,015	—
Acquisitions, net of cash received	(9,328)	—
Net cash (used in) provided by investing activities	(1,026)	1,228
Cash flows from financing activities:		
Distributions to noncontrolling interests	(20,153)	(52,908)
Dividends paid on Class A common stock	(4,718)	(5,485)
Payment of shares withheld to satisfy withholding requirements	(953)	(64)
Payment of capital lease obligations	(109)	(94)
Purchase of Class A units of Manning & Napier Group, LLC	(16,135)	(37,720)
Payment of debt issuance costs	—	(612)
Net cash used in financing activities	(42,068)	(96,883)
Net increase (decrease) in cash and cash equivalents	73	(30,392)
Cash and cash equivalents:		
Beginning of period	117,591	124,992
End of period	$117,664	$94,600

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

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Manning & Napier, Inc.
Notes to Consolidated Financial Statements

Note 1—Organization and Nature of the Business

Manning & Napier, Inc. ("Manning & Napier", or the "Company") provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trusts, as well as a variety of consultative services that complement its investment process. Founded in 1970, the Company offers equity, fixed income and alternative strategies, as well as a range of blended asset portfolios, such as life cycle funds. Headquartered in Fairport, New York, the Company serves a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations.

The Company is the sole managing member of Manning & Napier Group, LLC and its subsidiaries ("Manning & Napier Group"), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts the Company's organization structure as of June 30, 2016.

(1) The consolidated operating subsidiaries of Manning & Napier Group include Manning & Napier Advisors, LLC ("MNA"), Manning & Napier Alternative Opportunities, LLC, Perspective Partners LLC, Manning & Napier Information Services, LLC, Manning & Napier Benefits, LLC, Manning & Napier Investor Services, Inc., Exeter Trust Company and Rainier Investment Management, LLC.

Note 2—Summary of Significant Accounting Policies

Critical Accounting Policies

There have been no significant changes in our critical accounting policies and estimates from those that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

The Company believes that the disclosures herein are adequate so that the information presented is not misleading; however, these financial statements should be read in conjunction with the financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2015. The financial data for the interim periods may not necessarily be indicative of results for future interim periods or for the full year.

Manning & Napier, Inc.
Notes to Consolidated Financial Statements (Continued)

Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and related rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim financial reporting and include all adjustments, consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates or assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from these estimates or assumptions.

In the quarter ended June 30, 2016, the Company changed its presentation of goodwill within its consolidated statements of financial condition from a component of total "Other long-term assets" to "Goodwill".

Amounts for the comparative prior fiscal year period have been reclassified to conform to the current year presentation. This reclassification had no impact on previously reported total assets or financial position and does not represent a restatement of any previously published financial results. Other long-term assets at December 31, 2015, previously reported as $1.3 million, is $0.4 million as reclassified. Goodwill at December 31, 2015 is $0.9 million as reclassified.

Principles of Consolidation

The Company consolidates all majority-owned subsidiaries. In addition, as of June 30, 2016, Manning & Napier holds an economic interest of approximately 17.4% in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC (“M&N Group Holdings”) and Manning & Napier Capital Company, LLC (“MNCC”).

All material intercompany transactions have been eliminated in consolidation.

In accordance with Accounting Standards Codification ("ASU") 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, the determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design, a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance, and whether a company is obligated to absorb losses or receive benefits that could potentially be significant to the entity. The standard also requires ongoing assessments of whether a company is the primary beneficiary of a variable interest entity (“VIE”).

The Company provides seed capital to its investment teams to develop new products and services for its clients. The original seed investment may represent all or a majority of the equity investment in the new product. Pursuant to U.S. GAAP, the Company evaluates its seed investments on a regular basis and consolidates such investments for which it holds a controlling financial interest.

The Company serves as the investment adviser for Manning & Napier Fund, Inc. series of mutual funds (the “Fund”), Exeter Trust Company Collective Investment Trusts (“CIT”), Rainier Investment Management Mutual Funds and Rainier Multiple Investment Trust. The Fund, CIT, Rainier Investment Management Mutual Funds and Rainier Multiple Investment Trust are legal entities, the business and affairs of which are managed by their respective boards of directors. As a result, each of these entities is a voting interest entity (“VOE”). The Company holds, in limited cases, direct investments in a fund (which are made on the same terms as are available to other investors) and consolidates each of these entities where it has a controlling financial interest or a majority voting interest.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in operating accounts at major financial institutions and also in money market securities. Cash equivalents are stated at cost, which approximates market value due to the short-term maturity of these investments. The fair value of cash equivalents have been classified as Level 1 in accordance with the fair value hierarchy.

Investment Securities

Investment securities are classified as either trading or available-for-sale and are carried at fair value. Fair value is determined based on quoted market prices in active markets for identical or similar instruments.

Investment securities classified as trading consist of equity securities, fixed income securities, and investments in mutual funds and hedge funds for which the Company provides advisory services. Realized and unrealized gains and losses on trading securities are recorded in net gains (losses) on investments in the consolidated statements of operations. At June 30, 2016, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes.

Goodwill and Intangible Assets

Goodwill represents the excess cost over the fair value of the identifiable net assets of acquired companies. Identifiable intangible assets generally represent the cost of client relationships and investment management agreements acquired as well as trademarks. Goodwill and indefinite-lived assets are tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable. Intangible assets subject to amortization are tested for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill and intangible assets require significant management estimate and judgment, including the valuation and expected life determination in connection with the initial purchase price allocation and the ongoing evaluation for impairment.

Operating Segments

The Company operates in one segment, the investment management industry. The Company primarily provides investment management services to separately managed accounts, mutual funds and collective investment trust funds. Management assesses the financial performance of these vehicles on a combined basis.

Revenue

The majority of the Company’s revenues are based on fees charged to manage customers’ portfolios. Investment management fees are generally computed as a percentage of assets under management ("AUM") and recognized as earned. Fees for providing investment advisory services are computed and billed in accordance with the provisions of the applicable investment management agreements. For the Company’s separately managed accounts, clients either pay investment management fees in advance, typically for a semi-annual or quarterly period, or in arrears, typically for a monthly or quarterly period. When investment management fees are paid in advance, the Company defers the revenue and recognizes it over the applicable period. When investment management fees are paid in arrears, the Company estimates revenues based on AUM market values as of the most recent month end date, and adjusts to actual when billed. For mutual funds and collective investment trust vehicles, the Company’s fees are calculated and earned daily based on AUM.

The Company has agreements with third parties who provide distribution and administrative services for its mutual funds, collective investment trusts and certain separately managed accounts. Third party agreements are evaluated against Financial Accounting Standards Board ("FASB") ASC 605-45 Revenue Recognition - Principal Agent Considerations to determine whether revenue should be reported gross or net of payments to third-party service providers. In management's judgment there are various indicators that support gross revenue reporting, the most notable being the Company acts as primary obligor and therefore principal service provider. Based on this evaluation, investment management service revenue is recorded gross of distribution and administrative fees paid to third parties.

Advisory Agreements

The Company derives significant revenue from its role as advisor to the Fund and the CIT.

The Company's investments in the Fund amounted to approximately $1.3 million as of June 30, 2016 and $1.2 million as of December 31, 2015.

Fees earned for advisory related services provided to the Fund and CIT investment vehicles were approximately $28.0 million and $56.1 million for the three and six months ended June 30, 2016, respectively and $42.2 million and $87.4 million for the three and six months ended June 30, 2015, respectively. These amounts represent greater than 10% of the Company's revenue in each respective period.

Property and Equipment

Property and equipment is presented net of accumulated depreciation of approximately$11.4 million and $8.7 million as of June 30, 2016 and December 31, 2015, respectively.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance will be effective on January 1, 2018 and requires either a retrospective or a modified retrospective approach to adoption. Early application is permitted. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. ASU 2016-01 will be effective on January 1, 2018 and will result in a cumulative-effect adjustment to the balance sheet upon adoption. The Company is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). The new guidance will be effective for fiscal years beginning after December 15, 2018, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718), which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. Early application is permitted. The Company is currently evaluating the impact that ASU 2016-09 will have on its consolidated financial statements.

Note 3—Acquisitions

On April 30, 2016, the Company acquired a majority ownership interest in Rainier Investment Management, LLC ("Rainier"), an active investment management firm. Rainier specializes in capitalization-based U.S. and non-U.S. equity strategies and is headquartered in Seattle, Washington. Under the terms of the transaction, the Company acquired a 75% ownership interest in Rainier, with the remaining 25% ownership maintained by key professionals at Rainier. The transaction serves to further diversify the Company's product offerings, enhance its positioning as a provider to defined contribution plans, and broaden its geographic coverage of the western United States.

Consideration transferred included an upfront cash payment on the transaction closing date of $13.0 million. Additional cash payments of up to $32.5 million over a four year period are contingent upon Rainier's achievement of certain annual financial targets. The fair value of the liability for this contingent consideration recognized on the acquisition date was $3.5 million. As of June 30, 2016 the fair value of the contingent liability was $3.5 million and is included in other long-term liabilities within the consolidated statements of financial condition.

The transaction was accounted for by the Company using the acquisition method under ASC 805, Business Combinations. The following table summarizes the preliminary allocation of the April 30, 2016 purchase price to the assets acquired and liabilities assumed (in thousands):

Assets acquired	
Current assets	$6,998
Property and equipment, net	783
Intangible assets	
Client relationships	9,320
Trademarks	270
Goodwill	3,962
Total assets acquired	21,333
Liabilities assumed	
Accounts payable and accrued expenses	3,703
Other liabilities	1,204
Total liabilities assumed	4,907
Purchase price	$16,426

The amounts allocated to the Rainier assets acquired and liabilities assumed are preliminary pending completion of the final purchase price allocation, primarily in the area of accounting for income taxes. The goodwill of $4.0 million represents the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and, in management's opinion, is largely attributable to the value expected from the synergies created through the integration of Rainier's operations, the reputation and expertise of Rainier in the asset management industry, and the existing workforce of Rainier. The goodwill recognized as a result of the acquisition is expected to be deductible for

tax purposes.
The intangible assets for client relationships include those for separately managed accounts, mutual funds, and collective investment trusts. The client relationships for separately managed accounts were valued at $1.5 million and are being amortized over an estimated useful life of 6 years. Those for mutual funds and collective investment trusts, valued at approximately $7.8 million, are indefinite-lived, and as such, are not being amortized.

Manning & Napier, Inc.
Notes to Consolidated Financial Statements (Continued)

The fair value of the contingent consideration was measured using a Monte Carlo simulation with various unobservable market data inputs, which are Level 3 measurements. Significant unobservable inputs include projected revenue growth, projected EBITDA margins and discount rates over the four year earn-out period. For purposes of the simulation, EBITDA generally means net income before interest expense, income taxes, depreciation and amortization expense. A summary of various assumption values follows:

Projected revenue growth	up to 7.0%
Projected EBITDA margins	12.4% to 29.3%
Market price of risk	7.8%
Earn-out payment discount rate	3.0% to 3.6%

Significant increases (decreases) in projected AUM or revenue could result in a significantly higher (lower) contingent consideration liability fair value.

The 25% ownership maintained by key professionals at Rainier is subject to service-based vesting over the five-year period following the acquisition. The Company has the option to repurchase any vested ownership interests upon termination of employment, at a price based on the post-acquisition financial results of Rainier for the most recent four-quarter period preceding the employee's termination date. This repurchase price is recognized as a liability within the consolidated statements of financial condition. The carrying value of this liability was $0 on the acquisition date, and less than $0.1 million as of June 30, 2016.

Note 4—Noncontrolling Interests

Manning & Napier holds an economic interest of approximately 17.4% in Manning & Napier Group, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statement of financial condition with respect to the remaining approximately 82.6% aggregate economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC. Net income attributable to noncontrolling interests on the statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

The following provides a reconciliation from “Income before provision for income taxes” to “Net income attributable to Manning & Napier, Inc.”:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Income before provision for income taxes	$23,243	$32,289	$47,101	$70,879
Less: loss before provision for income taxes of Manning & Napier, Inc. (a)	(2)	(6)	(19)	(24)
Income before provision for income taxes, as adjusted	23,245	32,295	47,120	70,903
Controlling interest percentage (b)	17.2 %	16.7 %	17.0 %	15.6 %
Net income attributable to controlling interest	4,010	5,454	7,988	11,068
Plus: loss before provision for income taxes of Manning & Napier, Inc. (a)	(2)	(6)	(19)	(24)
Income before income taxes attributable to Manning & Napier, Inc.	4,008	5,448	7,969	11,044
Less: provision for income taxes of Manning & Napier, Inc. (c)	1,403	1,945	2,946	4,232
Net income attributable to Manning & Napier, Inc.	$2,605	$3,503	$5,023	$6,812

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a) Manning & Napier, Inc. incurs certain gains or expenses that are only attributable to it and are therefore excluded from the net income attributable to noncontrolling interests.

b) Income before provision for income taxes is allocated to the controlling interest based on the percentage of units of Manning & Napier Group held by Manning & Napier, Inc. The amount represents the Company's weighted ownership of Manning & Napier Group for the respective periods.

Manning & Napier, Inc.
Notes to Consolidated Financial Statements (Continued)

c) The consolidated provision for income taxes is equal to the sum of (i) the provision for income taxes for entities other than Manning & Napier, Inc. and (ii) the provision for income taxes of Manning & Napier, Inc. which includes all U.S. federal and state income taxes. The consolidated provision for income taxes was $1.5 million and $3.2 million for the three and six months ended June 30, 2016, respectively and $2.1 million and $4.6 million for the three and six months ended June 30, 2015, respectively.

A total of 65,784,571 units of Manning & Napier Group are held by the noncontrolling interests as of June 30, 2016. Pursuant to the terms of the exchange agreement entered into at the time of the Company's initial public offering, such units may be exchangeable for shares of the Company's Class A common stock. For any units exchanged, the Company will (i) pay an amount of cash equal to the number of units exchanged multiplied by the value of one share of the Company's Class A common stock less a market discount and expected expenses, or, at the Company's election, (ii) issue shares of the Company's Class A common stock on a one-for-one basis, subject to customary adjustments. As the Company receives units of Manning & Napier Group that are exchanged, the Company's ownership of Manning & Napier Group will increase.

On April 27, 2016, M&N Group Holdings and MNCC exchanged a total of 2,111,913 Class A units of Manning & Napier Group for approximately $16.1 million in cash. Subsequent to the exchange, the Class A units were retired. In addition, during the quarter ended June 30, 2016, equity awards issued under the 2011 Equity Compensation Plan (the "Equity Plan") vested (Note 12) for which Manning & Napier, Inc. acquired an equivalent number of Class A units of Manning & Napier Group. These acquisitions of additional operating membership interests were treated as reorganizations of entities under common control as required by ASC 805 "Business Combination". As a result of the aforementioned transactions, the Company's economic ownership in Manning & Napier Group increased to 17.4%.

At June 30, 2016 and December 31, 2015, the Company had recorded a liability of $42.0 million and $41.9 million, respectively, representing the estimated payments due to the selling unit holders under the tax receivable agreement ("TRA") entered into between Manning & Napier and the holders of Manning & Group. Of these amounts, $3.3 million were included in accrued expenses and other liabilities at June 30, 2016 and December 31, 2015. The Company made no payments pursuant to the TRA during the six months ended June 30, 2016 and 2015.

Obligations pursuant to the TRA are obligations of Manning & Napier. They do not impact the noncontrolling interests. These obligations are not income tax obligations. Furthermore, the TRA has no impact on the allocation of the provision for income taxes to the Company’s net income.

Note 5—Investment Securities

The following represents the Company’s investment securities holdings as of June 30, 2016 and December 31, 2015:

	June 30, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes (0.35%, 10/31/2016)	$ 2,105			