

LEGG MASON, INC.
Form 10-Q
February 05, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2017

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: 1-8529

LEGG MASON, INC.

(Exact name of registrant as specified in its charter)

MARYLAND

(State or other jurisdiction of incorporation or organization)

52-1200960

(I.R.S. Employer Identification No.)

100 International Drive - Baltimore, MD

(Address of principal executive offices)

21202

(Zip code)

(410) 539-0000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. _____

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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 issuer's classes of common stock, as of the latest practicable date.

84,540,288 shares of common stock as of the close of business on January 31, 2018.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	December 31, 2017	March 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$680,322	\$733,709
Cash and cash equivalents of consolidated investment vehicles	4,325	651
Restricted cash	17,605	16,046
Receivables:		
Investment advisory and related fees	482,652	433,192
Other	53,105	70,527
Investment securities	409,369	423,619
Investment securities of consolidated investment vehicles	126,942	49,901
Other	72,744	74,102
Other current assets of consolidated investment vehicles	1,694	—
Total Current Assets	1,848,758	1,801,747
Fixed assets, net	148,859	159,662
Intangible assets, net	3,800,885	4,034,380
Goodwill	1,925,650	1,924,889
Deferred income taxes	204,787	202,843
Other	137,055	156,907
Other assets of consolidated investment vehicles	9,172	9,987
TOTAL ASSETS	\$8,075,166	\$8,290,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accrued compensation	\$390,976	\$486,679
Accounts payable and accrued expenses	198,481	181,793
Short-term borrowings	225,500	—
Contingent consideration	16,625	22,316
Other	100,519	117,863
Other current liabilities of consolidated investment vehicles	487	736
Total Current Liabilities	932,588	809,387
Deferred compensation	98,586	87,757
Deferred income taxes	123,788	329,229
Contingent consideration	4,076	14,494
Other	133,106	138,737
Long-term debt, net	2,221,824	2,221,867
TOTAL LIABILITIES	3,513,968	3,601,471
Commitments and Contingencies (Note 9)		
REDEEMABLE NONCONTROLLING INTERESTS	727,706	677,772
STOCKHOLDERS' EQUITY		

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Common stock, par value \$.10; authorized 500,000,000 shares; issued 84,490,108 shares for December 2017 and 95,726,628 shares for March 2017	8,449	9,573
Additional paid-in capital	1,960,021	2,385,726
Employee stock trust	(21,860)	(24,057)
Deferred compensation employee stock trust	21,860	24,057
Retained earnings	1,911,479	1,694,859
Accumulated other comprehensive loss, net	(74,118)	(106,784)
Total stockholders' equity attributable to Legg Mason, Inc.	3,805,831	3,983,374
Nonredeemable noncontrolling interest	27,661	27,798
TOTAL STOCKHOLDERS' EQUITY	3,833,492	4,011,172
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$8,075,166	\$8,290,415
See Notes to Consolidated Financial Statements		

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LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
OPERATING REVENUES				
Investment advisory fees:				
Separate accounts	\$255,696	\$231,922	\$758,870	\$692,103
Funds	395,370	368,962	1,170,633	1,109,504
Performance fees	58,926	22,913	181,284	82,342
Distribution and service fees	81,463	90,195	241,037	276,122
Other	1,635	1,249	3,446	3,705
Total Operating Revenues	793,090	715,241	2,355,270	2,163,776
OPERATING EXPENSES				
Compensation and benefits	362,071	327,862	1,143,329	1,054,817
Distribution and servicing	124,254	123,191	370,237	376,722
Communications and technology	54,239	52,630	155,841	156,643
Occupancy	24,982	23,537	74,561	87,237
Amortization of intangible assets	6,071	7,277	18,492	19,251
Impairment charges	195,000	35,000	229,000	35,000
Contingent consideration fair value adjustments	739	(14,500)	(15,811)	(39,500)
Other	53,067	49,078	155,330	161,252
Total Operating Expenses	820,423	604,075	2,130,979	1,851,422
OPERATING INCOME (LOSS)	(27,333)	111,166	224,291	312,354
NON-OPERATING INCOME (EXPENSE)				
Interest income	1,827	1,713	4,867	5,106
Interest expense	(29,088)	(29,495)	(87,431)	(81,985)
Other income, net	5,519	6,126	24,196	22,686
Non-operating income of consolidated investment vehicles, net	8,225	1,458	11,316	9,892
Total Non-Operating Income (Expense)	(13,517)	(20,198)	(47,052)	(44,301)
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)	(40,850)	90,968	177,239	268,053
Income tax provision (benefit)	(209,396)	26,441	(142,468)	71,654
NET INCOME	168,546	64,527	319,707	196,399
Less: Net income attributable to noncontrolling interests	19,324	13,088	43,901	45,067
NET INCOME ATTRIBUTABLE TO LEGG MASON, INC.	\$149,222	\$51,439	\$275,806	\$151,332
NET INCOME PER SHARE ATTRIBUTABLE TO LEGG MASON, INC. SHAREHOLDERS:				
Basic	\$1.59	\$0.50	\$2.87	\$1.44
Diluted	1.58	0.50	2.86	1.43
DIVIDENDS DECLARED PER SHARE	\$0.28	\$0.22	\$0.84	\$0.66
See Notes to Consolidated Financial Statements				

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LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
NET INCOME	\$ 168,546	\$ 64,527	\$ 319,707	\$ 196,399
Other comprehensive income (loss):				
Foreign currency translation adjustment	190	(43,666)	32,303	(55,797)
Reclassification of cumulative foreign currency translation on Legg Mason Poland sale	—	2,493	—	2,493
Unrealized losses on interest rate swap:				
Unrealized losses on interest rate swap, net of tax benefit of \$1,708	—	—	—	(2,718)
Reclassification adjustment for losses included in net income, net of tax benefit of \$1,708	—	—	—	2,718
Net unrealized losses on interest rate swap	—	—	—	—
Changes in defined benefit pension plan	123	3,568	363	(16,483)
Total other comprehensive income (loss)	313	(37,605)	32,666	(69,787)
COMPREHENSIVE INCOME	168,859	26,922	352,373	126,612
Less: Comprehensive income attributable to noncontrolling interests	19,634	17,123	42,401	49,161
COMPREHENSIVE INCOME ATTRIBUTABLE TO LEGG MASON, INC.	\$ 149,225	\$ 9,799	\$ 309,972	\$ 77,451
See Notes to Consolidated Financial Statements				

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LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Nine Months Ended December 31,	
	2017	2016
STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.		
COMMON STOCK		
Beginning balance	\$9,573	\$10,701
Stock options exercised	37	14
Deferred compensation employee stock trust	1	1
Stock-based compensation	94	41
Employee tax withholdings by settlement of net share transactions	(35	) (36
Shares repurchased and retired	(1,221	) (912
Ending balance	8,449	9,809
ADDITIONAL PAID-IN CAPITAL		
Beginning balance	2,385,726	2,693,113
Stock options exercised	10,593	3,906
Deferred compensation employee stock trust	419	385
Stock-based compensation	54,334	60,567
Performance-based restricted share units related to the acquisition of Clarion Partners	—	11,121
Employee tax withholdings by settlement of net share transactions	(13,039	) (11,809
Shares repurchased and retired	(477,918	) (290,762
Redeemable noncontrolling interest reclassification for affiliate management equity plans	(94	) (3,632
Ending balance	1,960,021	2,462,889
EMPLOYEE STOCK TRUST		
Beginning balance	(24,057	) (26,263
Shares issued to plans	(420	) (386
Distributions and forfeitures	2,617	1,663
Ending balance	(21,860	) (24,986
DEFERRED COMPENSATION EMPLOYEE STOCK TRUST		
Beginning balance	24,057	26,263
Shares issued to plans	420	386
Distributions and forfeitures	(2,617	) (1,663
Ending balance	21,860	24,986
RETAINED EARNINGS		
Beginning balance	1,694,859	1,576,242
Net Income Attributable to Legg Mason, Inc.	275,806	151,332
Dividends declared	(80,442	) (68,377
Reclassifications to noncontrolling interest for:		
EnTrustPermal combination	—	(15,500
Net increase in estimated redemption value of affiliate management equity plans and affiliate noncontrolling interests	(3,071	) (2,629
Adoption of new stock-based compensation guidance	24,327	—
Ending balance	1,911,479	1,641,068
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET		
Beginning balance	(106,784) (66,493
Changes in defined benefit pension plan	363	(16,483

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Foreign currency translation adjustment	32,303	(55,797)
Reclassification of cumulative foreign currency translation on Legg Mason Poland sale	—	2,493
Ending balance	(74,118)	(136,280)
TOTAL STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.	3,805,831	3,977,486
NONREDEEMABLE NONCONTROLLING INTEREST		
Beginning balance	27,798	22,202
Net income attributable to noncontrolling interests	6,387	5,732
Distributions	(6,524)	(4,555)
Ending balance	27,661	23,379
TOTAL STOCKHOLDERS' EQUITY	\$3,833,492	\$4,000,865
See Notes to Consolidated Financial Statements		

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LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		&#160