

LEGG MASON, INC.
Form 10-Q
February 05, 2019
Table of Contents

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, 2018

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: 001-08529

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 every Interactive Data File required to be submitted 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 such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer Accelerated filer

Non-accelerated filer 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

As of January 31, 2019, there were 85,540,068 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS</u>	
<u>CONSOLIDATED STATEMENTS OF INCOME (LOSS)</u>	
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</u>	
<u>CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY</u>	
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>47</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>87</u>
<u>Item 4. Controls and Procedures</u>	<u>87</u>
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	<u>88</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>88</u>
<u>Item 5. Other Information</u>	<u>89</u>
<u>Item 6. Exhibits</u>	<u>89</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	December 31, 2018	March 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$835,168	\$736,130
Cash and cash equivalents of consolidated investment vehicles	3,528	2,800
Restricted cash	22,336	30,428
Receivables:		
Investment advisory and related fees	432,607	475,594
Other	61,396	77,024
Investment securities	331,588	399,370
Investment securities of consolidated investment vehicles	142,337	140,133
Other	76,185	65,010
Other current assets of consolidated investment vehicles	5,873	1,893
Total Current Assets	1,911,018	1,928,382
Fixed assets, net	150,230	148,406
Intangible assets, net	3,389,799	3,797,659
Goodwill	1,881,470	1,932,355
Deferred income taxes	189,867	202,068
Other	149,563	134,407
Other assets of consolidated investment vehicles	10,668	9,257
TOTAL ASSETS	\$7,682,615	\$8,152,534
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accrued compensation	\$522,363	\$476,061
Accounts payable and accrued expenses	203,881	175,583
Short-term borrowings	—	125,500
Current portion of long-term debt	250,636	—
Other	93,050	204,264
Other current liabilities of consolidated investment vehicles	11,351	634
Total Current Liabilities	1,081,281	982,042
Deferred compensation	81,957	92,422
Deferred income taxes	99,544	139,787
Other (including unfunded pension benefit obligation of \$28,227 and \$34,940, respectively)	119,069	132,042
Long-term debt, net	1,971,131	2,221,810
TOTAL LIABILITIES	3,352,982	3,568,103
Commitments and Contingencies (Note 7)		
REDEEMABLE NONCONTROLLING INTERESTS	676,950	732,295
STOCKHOLDERS' EQUITY		

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Common stock, par value \$0.10; authorized 500,000,000 shares; issued 85,533,667 shares for December 31, 2018 and 84,606,408 shares for March 31, 2018	8,553	8,461
Additional paid-in capital	2,028,586	1,976,364
Employee stock trust	(21,383)	(21,996)
Deferred compensation employee stock trust	21,383	21,996
Retained earnings	1,723,817	1,894,762
Accumulated other comprehensive loss, net	(135,767)	(55,182)
Total stockholders' equity attributable to Legg Mason, Inc.	3,625,189	3,824,405
Nonredeemable noncontrolling interest	27,494	27,731
TOTAL STOCKHOLDERS' EQUITY	3,652,683	3,852,136
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$7,682,615	\$8,152,534
See Notes to Consolidated Financial Statements		

3

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
OPERATING REVENUES				
Investment advisory fees:				
Separate accounts	\$256,657	\$255,696	\$778,119	\$758,870
Funds	361,173	395,370	1,128,660	1,170,633
Performance fees	12,619	58,926	68,529	181,284
Distribution and service fees	72,185	81,463	230,449	241,037
Other	1,688	1,635	4,897	3,446
Total Operating Revenues	704,322	793,090	2,210,654	2,355,270
OPERATING EXPENSES				
Compensation and benefits	316,876	362,071	1,043,329	1,143,329
Distribution and servicing	108,842	124,254	339,959	370,237
Communications and technology	56,664	54,239	170,893	155,841
Occupancy	24,077	24,982	76,333	74,561
Amortization of intangible assets	6,089	6,071	18,371	18,492
Impairment of intangible assets	365,200	195,000	365,200	229,000
Contingent consideration fair value adjustments	—	739	571	(15,811)
Other	63,001	53,067	171,021	155,330
Total Operating Expenses	940,749	820,423	2,185,677	2,130,979
OPERATING INCOME (LOSS)	(236,427)	(27,333)	24,977	224,291
NON-OPERATING INCOME (EXPENSE)				
Interest income	3,126	1,827	7,992	4,867
Interest expense	(28,770)	(29,088)	(88,547)	(87,431)
Other income (expense), net	(7,042)	5,519	6,837	24,196
Non-operating income of consolidated investment vehicles, net	2,369	8,225	1,954	11,316
Total Non-Operating Income (Expense)	(30,317)	(13,517)	(71,764)	(47,052)
INCOME (LOSS) BEFORE INCOME TAX PROVISION	(266,744)	(40,850)	(46,787)	177,239
Income tax provision (benefit)	(60,354)	(209,396)	165	(142,468)
NET INCOME (LOSS)	(206,390)	168,546	(46,952)	319,707
Less: Net income attributable to noncontrolling interests	10,498	19,324	31,043	43,901
NET INCOME (LOSS) ATTRIBUTABLE TO LEGG MASON, INC.	\$(216,888)	\$149,222	\$(77,995)	\$275,806
NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO LEGG MASON, INC. STOCKHOLDERS:				
Basic	\$(2.55)	\$1.59	\$(0.95)	\$2.87
Diluted	(2.55)	1.58	(0.95)	2.86
See Notes to Consolidated Financial Statements				

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
NET INCOME (LOSS)	\$(206,390)	\$168,546	\$(46,952)	\$319,707
Other comprehensive income (loss):				
Foreign currency translation adjustment	(14,012)	190	(82,032)	32,303
Changes in defined benefit pension plan	354	123	1,447	363
Total other comprehensive income (loss)	(13,658)	313	(80,585)	32,666
COMPREHENSIVE INCOME (LOSS)	(220,048)	168,859	(127,537)	352,373
Less: Comprehensive income attributable to noncontrolling interests	11,425	19,634	36,052	42,401
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO LEGG MASON, INC.	\$(231,473)	\$149,225	\$(163,589)	\$309,972

See Notes to Consolidated Financial Statements

Table of Contents

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

	Nine Months Ended December 31,	
	2018	2017
STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.		
COMMON STOCK		
Beginning balance	\$8,461	\$9,573
Stock options exercised	19	37
Deferred compensation employee stock trust	1	1
Stock-based compensation	112	94
Employee tax withholdings by settlement of net share transactions	(40) (35
Shares repurchased and retired	—	(1,221
Ending balance	8,553	8,449
ADDITIONAL PAID-IN CAPITAL		
Beginning balance	1,976,365	2,385,726
Stock options exercised	5,814	10,593
Deferred compensation employee stock trust	468	419
Stock-based compensation	49,195	54,334
Employee tax withholdings by settlement of net share transactions	(15,507) (13,039
Shares repurchased and retired	—	(477,918
Redeemable noncontrolling interest reclassification for affiliate management equity plans and affiliate noncontrolling interest	12,251	(94
Ending balance	2,028,586	1,960,021
EMPLOYEE STOCK TRUST		
Beginning balance	(21,996) (24,057
Shares issued to plans	(469) (420
Distributions	1,082	2,617
Ending balance	(21,383) (21,860
DEFERRED COMPENSATION EMPLOYEE STOCK TRUST		
Beginning balance	21,996	24,057
Shares issued to plans	469	420
Distributions	(1,082) (2,617
Ending balance	21,383	21,860
RETAINED EARNINGS		
Beginning balance	1,894,762	1,694,859
Net income (loss) attributable to Legg Mason, Inc.	(77,995) 275,806
Dividends declared	(90,345) (80,442
Reclassification to noncontrolling interest for net increase in estimated redemption value of affiliate management equity plans and affiliate noncontrolling interests	(14,868) (3,071
Adoption of new revenue recognition guidance	12,263	—
Adoption of new stock-based compensation guidance	—	24,327
Ending balance	1,723,817	1,911,479
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET		
Beginning balance	(55,182) (106,784
Changes in defined benefit pension plan	1,447	363

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Foreign currency translation adjustment	(82,032)	32,303
Ending balance	(135,767)	(74,118)
TOTAL STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.	3,625,189	3,805,831
NONREDEEMABLE NONCONTROLLING INTEREST		
Beginning balance	27,731	27,798
Net income attributable to noncontrolling interests	6,583	6,387
Distributions	(6,820)	(6,524)
Ending balance	27,494	27,661
TOTAL STOCKHOLDERS' EQUITY	\$3,652,683	\$3,833,492
See Notes to Consolidated Financial Statements		

Table of ContentsLEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$(46,952)	\$319,707
Adjustments to reconcile Net Income (Loss) to net cash provided by operations:		
Impairments of intangible assets	365,200	229,000
Tax expense (benefit) for new Tax Law	2,164	-(213,675)
Depreciation and amortization	54,031	54,551
Accretion and amortization of securities discounts and premiums, net	1,591	2,255
Stock-based compensation	49,975	55,002
Net unrealized losses (gains) on investments	40,446	(21,841)
Net gains and earnings on investments	(36,495)	(2,874)
Net gains of consolidated investment vehicles	(1,954)	(11,316)
Deferred income taxes	(19,634)	46,650
Contingent consideration fair value adjustments	571	(15,811)
Payment of contingent consideration	—	(739)
Other	286	