

LEGG MASON, INC.
Form 10-Q
August 02, 2016
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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 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: 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 or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

103,627,401 shares of common stock as of the close of business on July 28, 2016.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	June 30, 2016	March 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$490,688	\$1,329,126
Cash and cash equivalents of consolidated investment vehicles	968	297
Restricted cash	19,494	19,580
Receivables:		
Investment advisory and related fees	403,567	334,922
Other	119,024	74,694
Investment securities	447,647	515,335
Investment securities of consolidated investment vehicles	146,520	48,715
Other	70,984	55,405
Other current assets of consolidated investment vehicles	3,427	6,970
Total Current Assets	1,702,319	2,385,044
Fixed assets, net	170,804	163,305
Intangible assets, net	4,249,456	3,146,485
Goodwill	1,795,409	1,479,516
Deferred income taxes	208,034	206,797
Other	162,970	139,215
Other assets of consolidated investment vehicles	7,601	84
TOTAL ASSETS	\$8,296,593	\$7,520,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accrued compensation	\$219,849	\$430,736
Accounts payable and accrued expenses	220,092	201,572
Short-term borrowings	500,000	40,000
Contingent consideration	13,353	26,396
Other	156,135	138,301
Other current liabilities of consolidated investment vehicles	6,682	4,548
Total Current Liabilities	1,116,111	841,553
Deferred compensation	85,740	65,897
Deferred income taxes	304,779	260,386
Contingent consideration	49,570	58,189
Other	161,940	141,886
Long-term debt	1,738,321	1,740,985
TOTAL LIABILITIES	3,456,461	3,108,896

Commitments and Contingencies (Note 9)

REDEEMABLE NONCONTROLLING INTERESTS	722,562	175,785
STOCKHOLDERS' EQUITY		
Common stock, par value \$.10; authorized 500,000,000 shares; issued 103,595,002 shares for June 2016 and 107,011,664 shares for March 2016	10,360	10,701
Additional paid-in capital	2,605,436	2,693,113
Employee stock trust	(25,626)	(26,263)
Deferred compensation employee stock trust	25,626	26,263
Retained earnings	1,569,994	1,576,242
Accumulated other comprehensive loss, net	(91,471)	(66,493)
Total stockholders' equity attributable to Legg Mason, Inc.	4,094,319	4,213,563
Nonredeemable noncontrolling interest	23,251	22,202
TOTAL STOCKHOLDERS' EQUITY	4,117,570	4,235,765
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$8,296,593	\$7,520,446
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 June 30,	
	2016	2015
OPERATING REVENUES		
Investment advisory fees:		
Separate accounts	\$226,853	\$208,104
Funds	363,463	384,345
Performance fees	17,459	18,653
Distribution and service fees	91,382	96,860
Other	1,008	688
Total Operating Revenues	700,165	708,650
OPERATING EXPENSES		
Compensation and benefits	358,625	315,052
Distribution and servicing	124,663	149,288
Communications and technology	52,732	48,677
Occupancy	33,142	25,987
Amortization of intangible assets	5,703	657
Other	51,745	44,446
Total Operating Expenses	626,610	584,107
OPERATING INCOME	73,555	124,543
OTHER NON-OPERATING INCOME (EXPENSE)		
Interest income	1,848	1,317
Interest expense	(24,565)	(11,949)
Other income, net	6,585	5,711
Other non-operating income of consolidated investment vehicles, net	3,228	407
Total Other Non-Operating Income (Expense)	(12,904)	(4,514)
INCOME BEFORE INCOME TAX PROVISION	60,651	120,029
Income tax provision	15,311	25,090
NET INCOME	45,340	94,939
Less: Net income attributable to noncontrolling interests	11,888	391
NET INCOME ATTRIBUTABLE TO LEGG MASON, INC.	\$33,452	\$94,548
 NET INCOME PER SHARE ATTRIBUTABLE TO LEGG MASON, INC.		
SHAREHOLDERS:		
Basic	\$0.31	\$0.85
Diluted	0.31	0.84
 DIVIDENDS DECLARED PER SHARE		
See Notes to Consolidated Financial Statements	\$0.22	\$0.20

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,	
	2016	2015
NET INCOME	\$45,340	\$94,939
Other comprehensive income:		
Foreign currency translation adjustment	(17,190)	20,664
Unrealized losses on interest rate swap:		
Unrealized losses on interest rate swap, net of tax benefit of \$1,889	(3,007)	—
Reclassification adjustment for losses included in net income, net of tax benefit of \$203	324	—
Net unrealized losses on interest rate swap	(2,683)	—
Net actuarial gains (losses) on defined benefit pension plan	(5,105)	1,068
Total other comprehensive income (loss)	(24,978)	21,732
COMPREHENSIVE INCOME	20,362	116,671
Less: Comprehensive income attributable to noncontrolling interests	13,886	391
COMPREHENSIVE INCOME ATTRIBUTABLE TO LEGG MASON, INC.	\$6,476	\$116,280
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)

	Three Months Ended June 30,	
	2016	2015
STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.		
COMMON STOCK		
Beginning balance	\$ 10,701	\$ 11,147
Stock options exercised	7	16
Deferred compensation employee stock trust	1	—
Stock-based compensation	34	15
Employee tax withholdings by settlement of net share transactions	(36)	(39)
Shares repurchased and retired	(347)	(126)
Ending balance	10,360	11,013
ADDITIONAL PAID-IN CAPITAL		
Beginning balance	2,693,113	2,844,441
Stock options exercised	1,803	5,014
Deferred compensation employee stock trust	122	111
Stock-based compensation	25,860	18,555
Performance-based Legg Mason restricted share units related to the acquisition of Clarion Partners	11,121	—
Additional tax benefit on Equity Unit exchange in fiscal 2010	—	9,134
Employee tax withholdings by settlement of net share transactions	(11,625)	(20,963)
Shares repurchased and retired	(111,326)	(67,874)
Redeemable noncontrolling interest reclassification for affiliate management equity plans	(3,632)	—
Ending balance	2,605,436	2,788,418
EMPLOYEE STOCK TRUST		
Beginning balance	(26,263)	(29,570)
Shares issued to plans	(123)	(111)
Distributions and forfeitures	760	—
Ending balance	(25,626)	(29,681)
DEFERRED COMPENSATION EMPLOYEE STOCK TRUST		
Beginning balance	26,263	29,570
Shares issued to plans	123	111
Distributions and forfeitures	(760)	—
Ending balance	25,626	29,681
RETAINED EARNINGS		
Beginning balance	1,576,242	1,690,055
Net Income Attributable to Legg Mason, Inc.	33,452	94,548
Dividends declared	(23,581)	(22,338)
Reclassifications to noncontrolling interest for:		
EnTrustPermal combination	(15,500)	—
Net increase in estimated redemption value of affiliate management equity plans	(619)	(480)
Ending balance	1,569,994	1,761,785
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET		
Beginning balance	(66,493)	(60,742)
Net unrealized losses on interest rate swap	(2,683)	—

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Net actuarial gains (losses) on defined benefit pension plan	(5,105) 1,068
Foreign currency translation adjustment	(17,190) 20,664
Ending balance	(91,471) (39,010)
TOTAL STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.	4,094,319	4,522,206
Nonredeemable noncontrolling interest	23,251	—
TOTAL STOCKHOLDERS' EQUITY	\$4,117,570	\$4,522,206
See Notes to Consolidated Financial Statements		

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

	Three Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$45,340	\$94,939
Adjustments to reconcile Net Income to net cash provided by (used in) operations:		
Depreciation and amortization	20,918	13,975
Accretion and amortization of securities discounts and premiums, net	659	177
Stock-based compensation, including \$15,200 related to the Clarion Partners affiliate management equity plan in 2016	37,471	18,871
Net gains and earnings on investments	(6,169)	(1,979)
Net gains of consolidated investment vehicles	(3,199)	(161)
Deferred income taxes	16,093	23,364
Contingent consideration fair value adjustment	(18,000)	—
Other	1,913	(56)
Decrease (increase) in assets:		
Investment advisory and related fees receivable	4,564	22,554
Net sales of trading and other investments	16,392	40,974
Other receivables	(8,930)	(6,976)
Other assets	3,685	1,713
Other assets of consolidated investment vehicles	(40,705)	(6,929)
Increase (decrease) in liabilities:		
Accrued compensation	(236,848)	(212,390)
Deferred compensation	20,076	13,482
Accounts payable and accrued expenses	17,145	2,405
Other liabilities	(38,509)	1,347
Other liabilities of consolidated investment vehicles	2,134	(2,640)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$(165,970)	\$2,670

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

	Three Months Ended June 30,	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for fixed assets	\$(11,971)	\$(9,528)
Business acquisitions, net of cash acquired of \$33,543	(997,933)	—
Change in restricted cash	1,088	12,348
Proceeds from sales and maturities of investments	1,000	3,993
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,007,816)	6,813
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	460,000	—
Payment of contingent consideration	—	(22,765)
Debt issuance costs	(806)	—
Issuances of common stock for stock-based compensation	1,933	5,141
Employee tax withholdings by settlement of net share transactions	(11,661)	(21,002)
Repurchases of common stock	(111,673)	(68,000)
Dividends paid	(21,878)	(18,037)
Net subscriptions/(redemptions) and distributions attributable to noncontrolling interests	19,065	9,122
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	334,980	(115,541)
EFFECT OF EXCHANGE RATES ON CASH	368	(33,251)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(838,438)	(139,309)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,329,126	669,552
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$490,688	