

LEGG MASON, INC.
Form 10-Q
February 02, 2016
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, 2015

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.

107,708,098 shares of common stock as of the close of business on January 28, 2016.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	December 31, 2015	March 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$563,472	\$669,552
Cash and cash equivalents of consolidated investment vehicles	1,138	2,808
Restricted cash	16,776	32,114
Receivables:		
Investment advisory and related fees	332,769	368,399
Other	62,746	118,850
Investment securities	498,017	454,735
Investment securities of consolidated investment vehicles	52,674	48,000
Deferred income taxes	167,355	169,706
Other	60,108	51,750
Other assets of consolidated investment vehicles	5,766	6,121
Total Current Assets	1,760,821	1,922,035
Fixed assets, net	167,741	179,606
Intangible assets, net	3,142,060	3,313,334
Goodwill	1,471,145	1,339,510
Deferred income taxes	175,479	161,978
Other	121,227	157,514
TOTAL ASSETS	\$6,838,473	\$7,073,977
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accrued compensation	\$349,890	\$400,245
Accounts payable and accrued expenses	189,144	208,210
Short-term borrowings	40,000	—
Contingent consideration	2,694	22,276
Other	102,756	177,879
Other current liabilities of consolidated investment vehicles	4,087	6,436
Total Current Liabilities	688,571	815,046
Deferred compensation	64,641	51,706
Deferred income taxes	343,416	362,209
Contingent consideration	87,770	88,508
Other	153,528	167,998
Long-term debt	1,056,759	1,058,089
TOTAL LIABILITIES	2,394,685	2,543,556

Commitments and Contingencies (Note 9)

REDEEMABLE NONCONTROLLING INTERESTS	158,531	45,520
STOCKHOLDERS' EQUITY		
Common stock, par value \$.10; authorized 500,000,000 shares; issued 107,700,310 shares in December 2015 and 111,469,142 shares in March 2015	10,770	11,147
Additional paid-in capital	2,708,754	2,844,441
Employee stock trust	(27,321)	) (29,570)
Deferred compensation employee stock trust	27,321	29,570
Retained earnings	1,643,842	1,690,055
Accumulated other comprehensive loss, net	(78,109)	) (60,742)
TOTAL STOCKHOLDERS' EQUITY	4,285,257	4,484,901
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$6,838,473	\$7,073,977
See Notes to Consolidated Financial Statements		

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,	
	2015	2014	2015	2014
OPERATING REVENUES				
Investment advisory fees:				
Separate accounts	\$208,501	\$210,177	\$621,760	\$619,686
Funds	345,501	388,589	1,089,717	1,159,454
Performance fees	9,175	29,134	35,730	59,430
Distribution and service fees	95,919	90,053	292,381	274,250
Other	461	1,031	1,705	3,940
Total Operating Revenues	659,557	718,984	2,041,293	2,116,760
OPERATING EXPENSES				
Compensation and benefits	282,770	319,746	880,255	929,130
Distribution and servicing	132,860	147,492	421,078	451,300
Communications and technology	48,509	47,109	147,031	133,683
Occupancy	35,750	33,212	87,453	82,879
Amortization of intangible assets	1,580	669	2,907	2,028
Impairment charges	371,000	—	371,000	—
Other, net of \$26,375 of contingent consideration fair value reduction in December 2015	27,733	51,388	114,641	148,471
Total Operating Expenses	900,202	599,616	2,024,365	1,747,491
OPERATING INCOME (LOSS)	(240,645	) 119,368	16,928	369,269
OTHER NON-OPERATING INCOME (EXPENSE)				
Interest income	1,377	1,680	3,923	5,885
Interest expense	(8,003	) (12,183	) (33,232	) (44,216
Other income (expense), net, including \$107,074 debt extinguishment loss in July 2014	6,520	7,441	(15,879	) (94,467
Other non-operating income (expense) of consolidated investment vehicles, net	(1,510	) 1,759	(3,406	) 4,687
Total Other Non-Operating Income (Expense)	(1,616	) (1,303	) (48,594	) (128,111
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)	(242,261	) 118,065	(31,666	) 241,158
Income tax provision (benefit)	(103,651	) 38,017	(50,914	) 82,477
NET INCOME (LOSS)	(138,610	) 80,048	19,248	158,681
Less: Net income (loss) attributable to noncontrolling interests	16	3,012	(993	) 4,560
NET INCOME (LOSS) ATTRIBUTABLE TO LEGG MASON, INC.	\$(138,626	) \$77,036	\$20,241	\$154,121
NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO LEGG MASON, INC. SHAREHOLDERS:				
Basic	\$(1.31) \$0.67	\$0.17	\$1.33

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Diluted	\$ (1.31) \$ 0.67	\$ 0.17	\$ 1.32
DIVIDENDS DECLARED PER SHARE	\$ 0.20	\$ 0.16	\$ 0.60	\$ 0.48
See Notes to Consolidated Financial Statements				

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LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

(Unaudited)

	Three Months Ended December		Nine Months Ended December	
	31,		31,	
	2015	2014	2015	2014
NET INCOME (LOSS)	\$(138,610	) \$80,048	\$19,248	\$158,681
Other comprehensive loss:				
Foreign currency translation adjustment	(5,169	) (31,266	) (21,681	) (52,790
Unrealized losses on investment securities:				
Unrealized holding losses, net of tax benefit of \$(3)	—	—	—	(5
Reclassification adjustment for losses included in net income	—	—	—	5
Net unrealized losses on investment securities	—	—	—	—
Net actuarial gains (losses) on defined benefit pension plan	1,324	(4,028	) 4,314	(4,028
Unrealized gains on reverse treasury rate lock, net of tax provision of \$233	—	—	—	405
Reclassification for realized gain on termination of reverse treasury rate lock, net of tax provision \$(233)	—	—	—	(405
Reclassification of assets held for sale	—	—	—	(114
Total other comprehensive loss	(3,845	) (35,294	) (17,367	) (56,932
COMPREHENSIVE INCOME (LOSS)	(142,455	) 44,754	1,881	101,749
Less: Comprehensive income (loss) attributable to noncontrolling interests	16	3,012	(993	) 4,560
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO LEGG MASON, INC.	\$(142,471	) \$41,742	\$2,874	\$97,189

See Notes to Consolidated Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Nine Months Ended December 31,	
	2015	2014
COMMON STOCK		
Beginning balance	\$11,147	\$11,717
Stock options exercised	26	67
Deferred compensation employee stock trust	2	4
Stock-based compensation	13	91
Employee tax withholdings by settlement of net share transactions	(41)	(47)
Shares repurchased and retired	(377)	(533)
Ending balance	10,770	11,299
ADDITIONAL PAID-IN CAPITAL		
Beginning balance	2,844,441	3,148,396
Stock options exercised	8,091	19,618
Deferred compensation employee stock trust	377	2,063
Stock-based compensation	52,584	43,609
Additional tax benefit on Equity Unit exchange in fiscal 2010	9,173	—
Employee tax withholdings by settlement of net share transactions	(21,495)	(21,879)
Shares repurchased and retired	(182,601)	(265,989)
Redeemable noncontrolling interest reclassification for affiliate management equity plans	(1,816)	(1,816)
Ending balance	2,708,754	2,924,002
EMPLOYEE STOCK TRUST		
Beginning balance	(29,570)	(29,922)
Shares issued to plans	(379)	(2,067)
Distributions and forfeitures	2,628	1,145
Ending balance	(27,321)	(30,844)
DEFERRED COMPENSATION EMPLOYEE STOCK TRUST		
Beginning balance	29,570	29,922
Shares issued to plans	379	2,067
Distributions and forfeitures	(2,628)	(1,145)
Ending balance	27,321	30,844
RETAINED EARNINGS		
Beginning balance	1,690,055	1,526,662
Net Income Attributable to Legg Mason, Inc.	20,241	154,121
Dividends declared	(65,781)	(56,455)
Reclassification for net increase in estimated redemption value of affiliate management equity plans	(673)	—
Ending balance	1,643,842	1,624,328
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET		
Beginning balance	(60,742)	37,949
Net actuarial gains (losses) on defined benefit pension plan	4,314	(4,028)
Reclassification to assets held for sale	—	(114)
Foreign currency translation adjustment	(21,681)	(52,790)
Ending balance	(78,109)	(18,983)
TOTAL STOCKHOLDERS' EQUITY	\$4,285,257	\$4,540,646

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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$19,248	\$158,681
5.5% Senior Notes Due 2019:		
Loss on extinguishments	—	107,074
Allocation of redemption payments	—	(98,418)
Adjustments to reconcile Net Income to net cash provided by operations:		
Impairment of intangible assets	371,000	—
Depreciation and amortization	44,755	41,107
Accretion and amortization of securities discounts and premiums, net	2,149	5,183
Stock-based compensation	54,576	50,934
Net losses (gains) on investments	20,277	(6,059)
Net losses (gains) of consolidated investment vehicles	2,145	(1,435)
Deferred income taxes	(56,231)	) 73,189
Contingent consideration fair value reduction	(26,375)) —
Other	1,130	(4,605)
Decrease (increase) in assets:		
Investment advisory and related fees receivable	34,892	(17,480)
Net sales (purchases) of trading and other investments	(63,015)	) 60,901
Other receivables	(6,229)	) 11,789
Other assets	(504)	) (17,744)
Other assets of consolidated investment vehicles	(4,793)	) 82,774
Increase (decrease) in liabilities:		
Accrued compensation	(48,607)	) (62,279)
Deferred compensation	12,935	9,033
Accounts payable and accrued expenses	(18,770)	) 8,032
Other liabilities	(29,842)	) (15,085)
Other liabilities of consolidated investment vehicles	(2,349)	) (4,545)
CASH PROVIDED BY OPERATING ACTIVITIES	\$306,392	\$381,047

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

Nine Months Ended December 31,
2015