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)
[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: 1-8529
LEGG MASON, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	52-1200960
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 International Drive - Baltimore, MD	21202
(Address of principal executive offices)	(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 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 (§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 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X	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 X
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	$0.22	$0.20

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 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

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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)	—

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	$530,243

See Notes to Consolidated Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts or unless otherwise noted)
June 30, 2016
(Unaudited)

1. Interim Basis of Reporting

The accompanying unaudited interim consolidated financial statements of Legg Mason, Inc. and its subsidiaries (collectively “Legg Mason”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission (the "SEC"). The interim consolidated financial statements have been prepared using the interim basis of reporting and, as such, reflect 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 periods presented. The preparation of interim consolidated financial statements requires management to make assumptions and estimates that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual amounts could differ from those estimates and the differences could have a material impact on the interim consolidated financial statements. Terms such as “we,” “us,” “our,” and “Company” refer to Legg Mason.

The nature of Legg Mason's business is such that the results of any interim period are not necessarily indicative of the results of a full year. Certain disclosures included in the Company's annual report are not required to be included on an interim basis in the Company's quarterly reports on Forms 10-Q. The Company has condensed or omitted these disclosures. Certain amounts in prior period financial statements have been reclassified to conform to the current period presentation.

The information contained in the interim consolidated financial statements should be read in conjunction with Legg Mason's latest Annual Report on Form 10-K filed with the SEC.

2. Significant Accounting Policies

Consolidation

In the normal course of its business, Legg Mason sponsors and manages various types of investment vehicles. For its services, Legg Mason is entitled to receive management fees and may be eligible, under certain circumstances, to receive additional subordinated management fees or other incentive fees. Legg Mason's exposure to risk in these entities is generally limited to any equity investment it has made or is required to make, and any earned but uncollected management fees. Legg Mason did not sell or transfer investment assets to any of these investment vehicles. In accordance with financial accounting standards, Legg Mason consolidates certain sponsored investment vehicles, some of which are designated and reported as consolidated investment vehicles (“CIVs”). The consolidation of sponsored investment vehicles, including those designated as CIVs, has no impact on Net Income Attributable to Legg Mason, Inc. and does not have a material impact on Legg Mason's consolidated operating results. The change in the value of all consolidated sponsored investment vehicles is recorded in Other Non-Operating Income (Expense) and reflected in Net income attributable to noncontrolling interests.

Certain investment vehicles Legg Mason sponsors and is the manager of are considered to be variable interest entities ("VIEs") (as further described below) while others are considered to be voting rights entities (“VREs”) subject to traditional consolidation concepts based on ownership rights. Sponsored investment vehicles that are considered VREs are consolidated if Legg Mason has a controlling financial interest in the investment vehicle, absent substantive investor rights to replace the manager of the entity (kick-out rights). Legg Mason may also fund the initial cash investment in certain VRE investment vehicles to generate an investment performance track record in order to attract

third-party investors in the product. Legg Mason's initial investment in a new product typically represents 100% of the ownership in that product. As further discussed below, these "seed capital investments" are consolidated as long as Legg Mason maintains a controlling financial interest in the product, but they are not designated as CIVs by Legg Mason unless the investment is longer-term. As of June 30, 2016, March 31, 2016, and June 30, 2015, no consolidated VREs were designated as CIVs.

A VIE is an entity which does not have adequate equity to finance its activities without additional subordinated financial support; or the equity investors, as a group, do not have the normal characteristics of equity investors for a potential controlling financial interest. Legg Mason must consolidate any VIE for which it is deemed to be the primary beneficiary.

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Updated Consolidation Accounting Guidance

Effective April 1, 2016, Legg Mason adopted updated consolidation accounting guidance on a modified retrospective basis. Under the updated guidance, if limited partners in a sponsored investment vehicle structured as a limited partnership or a similar entity do not have either substantive kick-out or substantive participation rights over the general partner, the entities are VIEs. As a sponsor and manager of an investment vehicle, Legg Mason may be deemed a decision maker under the accounting guidance. If the fees paid to a decision maker are market-based, such fees are not considered variable interests in a VIE. Additionally, if employee interests in a sponsored investment vehicle are not made to circumvent the consolidation guidance and are not financed by the sponsor, they are not included in the variable interests assessment, and are not included in the primary beneficiary determination.

A decision maker is deemed to be a primary beneficiary of a VIE if it has the power to direct activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or receive benefits from variable interests that could be significant to the VIE. In determining whether it is the primary beneficiary of a VIE, Legg Mason considers both qualitative and quantitative factors such as the voting rights of the equity holders, guarantees, and implied relationships. If a fee paid to a decision maker is not market-based, it will be considered in the primary beneficiary determination.

The adoption of this accounting guidance resulted in certain sponsored investment vehicles that are foreign mutual fund trusts that were previously accounted for as VREs to be evaluated as VIEs, and the consolidation of nine funds, which are also designated as CIVs. In addition, Legg Mason concluded it is the primary beneficiary of one sponsored investment fund VIE managed by EnTrust Capital ("EnTrust"), which is also consolidated and designated a CIV. The adoption also resulted in the deconsolidation of 13 employee-owned funds, as Legg Mason no longer has a variable interest in these funds. The impact to the Consolidated Balance Sheet as of June 30, 2016, is the addition of $38,676 of assets, $2,255 of liabilities, and $37,093 of redeemable noncontrolling interests from CIVs.

Legg Mason also concluded it was the primary beneficiary of one sponsored investment fund VIE, which was consolidated (and designated as a CIV) as of June 30, 2016. This sponsored investment fund was also consolidated under prior accounting guidance, as further discussed below.

Prior Consolidation Accounting Guidance

Under prior accounting guidance, for most sponsored investment fund VIEs deemed to be investment companies, including money market funds, Legg Mason determined it was the primary beneficiary of a VIE if it absorbed a majority of the VIE's expected losses, or received a majority of the VIE's expected residual returns, if any. Legg Mason's determination of expected residual returns excluded gross fees paid to a decision maker if certain criteria relating to the fees were met. In determining whether it was the primary beneficiary of a VIE, Legg Mason considered both qualitative and quantitative factors such as the voting rights of the equity holders, economic participation of all parties, including how fees were earned and paid to Legg Mason; related party ownership, guarantees, and implied relationships.

For other sponsored investment funds that do not meet the investment company criteria, Legg Mason determined it was the primary beneficiary of a VIE if it had both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses, or the right to receive benefits, that could be significant to the VIE.

Legg Mason concluded it was the primary beneficiary of one sponsored investment fund VIE, that was consolidated as of March 31, 2016, and June 30, 2015, despite significant third-party investments in this product. Also, as of March 31, 2016, and June 30, 2015, Legg Mason concluded it was the primary beneficiary of 14 and 18 employee-owned funds it sponsors, respectively, which were consolidated and designated as CIVs.

As of June 30, 2015, Legg Mason had a variable interest in three collateralized loan obligations ("CLOs"). Legg Mason concluded it was not the primary beneficiary of these CLOs, which were not consolidated, as it held no equity interest in these investment vehicles and the level of fees they were expected to pay to Legg Mason was insignificant.

See Notes 4 and 13 for additional information related to VIEs.

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Fair Value Measurements
Legg Mason's financial instruments are measured and reported at fair value and are classified and disclosed in one of the following categories (the "fair value hierarchy"):

Level 1 — Financial instruments for which prices are quoted in active markets, which, for Legg Mason, include investments in publicly traded mutual funds with quoted market prices and equities listed in active markets and certain derivative instruments.

Level 2 — Financial instruments for which prices are quoted for similar assets and liabilities in active markets, prices are quoted for identical or similar assets in inactive markets, or prices are based on observable inputs, other than quoted prices, such as models or other valuation methodologies.

Level 3 — Financial instruments for which values are based on unobservable inputs, including those for which there is little or no market activity.

As a result of the acquisition of Clarion Partners in April 2016, Legg Mason holds investments in real estate fund partnerships, which are classified as Level 3. The fair values of investments in real estate funds are prepared giving consideration to the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. Yield rates and growth assumptions utilized in this approach are derived from market transactions as well as other financial and industry data. The discount rate and the exit capitalization rate are significant inputs to these valuations. These rates are based on the location, type and nature of each property, and current and anticipated market conditions. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. Many factors are also considered in the determination of fair value including, but not limited to, the operating cash flows and financial performance of the properties, property types and geographic locations, the physical condition of the asset, prevailing market capitalization rates, prevailing market discount rates, general economic conditions, economic conditions specific to the market in which the assets are located, and any specific rights or terms associated with the investment. Because of the inherent uncertainties of valuation, the values may materially differ from the values that would be determined by negotiations held between parties in a sale transaction.

See Note 4 for additional information regarding fair value measurements.

Contingent Consideration Liabilities
In connection with business acquisitions, Legg Mason may be required to pay additional future consideration based on the achievement of certain designated financial metrics. Legg Mason estimates the fair value of these potential future obligations at the time a business combination is consummated and records a Contingent consideration liability in the Consolidated Balance Sheet.

Legg Mason accretes contingent consideration liabilities to the expected payment amounts over the related earn-out terms until the obligations are ultimately paid, resulting in Interest expense in the Consolidated Statements of Income. If the expected payment amounts subsequently change, the contingent consideration liabilities are (reduced) or increased in the current period, resulting in a (gain) or loss, which is reflected within Other operating expense in the Consolidated Statements of Income. See Notes 3 and 9 for additional information regarding contingent consideration liabilities.

Noncontrolling Interests

Noncontrolling interests include affiliate minority interests, third-party investor equity in consolidated sponsored investment vehicles, and vested affiliate management equity plan interests. For CIVs and other consolidated sponsored investment vehicles with third-party investors, the related noncontrolling interests are classified as redeemable noncontrolling interests if investors in these funds may request withdrawals at any time. Also included in redeemable noncontrolling interests are vested affiliate management equity plan interests for which the holder may, at some point, request settlement of their interests. Redeemable noncontrolling interests are reported in the Consolidated Balance Sheets at their estimated settlement values. When settlement is not expected to occur until a future date, changes in the expected settlement value are recognized over the settlement period as an adjustment from retained earnings. Nonredeemable noncontrolling interests include vested affiliate management equity plan interests that do not permit the holder to request settlement of their interests. Nonredeemable

noncontrolling interests are reported in the Consolidated Balance Sheets at their issuance value, together with undistributed net income allocated to noncontrolling interests.

Legg Mason estimates the settlement value of noncontrolling interests as their fair value. For consolidated sponsored investment vehicles, where the investor may request withdrawal at any time, fair value is based on market quotes of the underlying securities held by the investment vehicles. For affiliate minority interests and management equity plan interests, fair value reflects the related total business enterprise value, after appropriate discounts for lack of marketability and control. There may also be features of these equity interests, such as dividend subordination, that are contemplated in their valuations. The fair value of option-like management equity plan interests also relies on Black-Scholes option pricing model calculations.

Net income attributable to noncontrolling interests in the Consolidated Statements of Income includes the share of net income of the respective subsidiary allocated to the minority interest holders.

See Note 11 for additional information regarding noncontrolling interests.

Accumulated Other Comprehensive Loss, Net

There were no significant amounts reclassified from Accumulated other comprehensive loss, net, to the Consolidated Statements of Income for the three months ended June 30, 2016 or 2015, except for $527 realized on the settlement of an interest rate swap for the three months ended June 30, 2016, as further described in Note 7.

Income Tax Provision

Noncontrolling interests in EnTrustPermal Group Holdings, LLC ("EnTrustPermal"), Clarion Partners, and Royce & Associates ("Royce") are structured as partnerships that pass related tax attributes to the related noncontrolling interest holders. As such, the consolidated financial statements do not generally include any tax provision/benefit associated with the net income allocated to these noncontrolling interests, which caused the effective tax rate to be reduced by 4.8 percentage points for the three months ended June 30, 2016.

During the three months ended June 30, 2015, Legg Mason recognized an income tax benefit of $17,527 as a result of an increase in the value of deferred tax assets due to changes in the New York City tax code. This benefit reduced the effective income tax rate by 14.6 percentage points for the three months ended June 30, 2015.

Recent Accounting Developments

In February 2016, the Financial Accounting Standards Board ("FASB") updated the guidance on accounting for leases. The updated guidance requires that a lessee shall recognize the assets and liabilities that arise from lease transactions. A lessee will recognize a right-of-use asset to use the underlying asset and a liability representing the lease payments. The updated guidance also requires an evaluation at the inception of a contract, to determine whether the contract is or contains a lease. The guidance will be effective in fiscal 2020. Legg Mason is evaluating the impact of its adoption.

In May 2014, the FASB updated the guidance on revenue recognition. The updated guidance improves comparability and removes inconsistencies in revenue recognition practices across entities, industries, jurisdictions, and capital markets. In March 2016, the FASB further updated the revenue guidance on determining whether to report revenue on a gross versus net basis. The updated guidance clarifies how entities evaluate principal versus agent aspects of the revenue recognition guidance issued in May 2014. The evaluation will require entities to identify all goods or services to be provided to the customer, and determine whether they obtain control of the good or service before it is transferred to the customer, where control would suggest a principal relationship, which would be accounted for on a gross basis. These updates are effective for Legg Mason in fiscal 2019. Legg Mason is evaluating the impact of its adoption.

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3. Acquisitions

The following table presents a summary of the acquisition-date fair values of the assets acquired and liabilities assumed for each of Legg Mason's significant recent acquisitions:

	EnTrust Capital	Clarion Partners	RARE Infrastructure Limited	Martin Currie (Holdings) Limited	QS Investors Holdings, LLC
Acquisition Date	May 2, 2016	April 13, 2016	October 21, 2015	October 1, 2014	May 31, 2014
Purchase price					
Cash	$400,000	$631,476	$ 213,739	$202,577	$ 11,000
Estimated contingent consideration	—	—	25,000	75,211	13,370
Performance-based Legg Mason restricted share units	—	11,121	—	—	—
Minority equity interest transferred	140,000 [1]	—	—	—	—
Total Consideration	540,000	642,597	238,739	277,788	24,370
Fair value of noncontrolling interest	247,700 [1]	105,300	62,722	—	—
Total	787,700	747,897	301,461	277,788	24,370
Identifiable assets and liabilities					
Cash	8,236	25,307	9,667	29,389	441
Investments	16,220	22,285	—	—	3,281
Receivables	20,820	53,657	6,612	—	2,699
Indefinite-life intangible fund management contracts	452,800	505,200	122,755	135,321	—
Indefinite-life trade name	7,400	23,100	4,766	7,130	—
Amortizable intangible asset management contracts	35,500	102,800	67,877	15,234	7,060
Fixed assets	4,479	8,255	673	784	599
Other current assets (liabilities), net	1,030	(25,585)	(10,605)	—	—
Assets (liabilities), net	81	(10,580)	(3,948)	(4,388)	(6,620)
Pension liability	—	—	—	(32,433)	—
Deferred tax liabilities	—	(50,832)	(58,619)	(31,537)	—
Total identifiable assets and liabilities	546,566	653,607	139,178	119,500	7,460
Goodwill	$241,134	$94,290	$ 162,283	$158,288	$ 16,910

(1) Post combination EnTrustPermal noncontrolling interest of $403,200 also includes a fair value reclassification of $15,500 from retained earnings

Legg Mason accounted for the acquisitions of EnTrust Capital and Clarion Partners as business combinations, which requires assets and liabilities assumed to be recorded at fair value. The primary identifiable assets acquired are intangible fund management contract assets and separate account assets. The amount by which the purchase price exceeds the fair value of the net assets acquired is recorded as goodwill. Legg Mason has prepared preliminary assessments of the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill recognized as of the applicable acquisition dates. The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the applicable acquisition dates. The primary aspects of the preliminary purchase price allocation relate to intangible indefinite-life fund management contract assets, definite-life management contract assets, and goodwill. The final determination of the fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the applicable acquisition dates, as permitted under U.S. GAAP. The final values may also result in changes to the amortization expense related to intangible assets and will be recognized in the period of adjustment. Any potential adjustments made could be material in relation to the values

presented in the table above.

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EnTrust Capital
On May 2, 2016, Legg Mason acquired EnTrust and combined it with The Permal Group, Ltd. ("Permal"), Legg Mason's existing hedge fund platform. EnTrust, an alternative asset management firm headquartered in New York, had $9,600,000 in assets under management ("AUM") and approximately $2,000,000 in assets under advisement and committed capital at closing, and largely complementary investment strategies, investor base, and business mix to Permal. The transaction included a cash payment of $400,000, which was funded with borrowings under Legg Mason's revolving credit facility, as well as a portion of the proceeds from the issuance of the $450,000 of 4.75% Senior Notes due 2026 (the "2026 Notes") and $250,000 of 6.375% Junior Subordinated Notes due 2056 (the "2056 Notes") in March 2016. As a result of the combination, Legg Mason owns 65% of the new entity, EnTrustPermal, with the remaining 35% owned by EnTrust's co-founder and managing partner. The noncontrolling interests can be put by the holder or called by Legg Mason for settlement at fair value subject to various conditions, including the passage of time. The fair value of the noncontrolling interests in the Consolidated Balance Sheet reflects the total business enterprise value, after appropriate discounts for lack of marketability and control of the combined entity.

Management preliminarily estimated the fair values of the indefinite-life intangible fund management contracts, indefinite-life trade name, and amortizable intangible asset management contracts based upon discounted cash flow analyses, using unobservable market data inputs, which are Level 3 measurements. These analyses involve determining the appropriate level at which to account for each identifiable intangible asset, and making assumptions for useful lives, projected AUM growth, projected annual cash flows, and discount rates.

The fair value of the acquired amortizable intangible asset management contracts had a preliminary useful life estimate of approximately five years to seven years at acquisition. Purchase price allocated to intangible assets and goodwill and is expected to be deductible for U.S. tax purposes over a period of 15 years. Goodwill is principally attributable to synergies expected to arise with EnTrust.

During the three months ended June 30, 2016, there were $6,732 of costs incurred in connection with the acquisition of EnTrust.

The financial results of EnTrust included in Legg Mason's consolidated financial results for the three months ended June 30, 2016, include revenues of $18,726, and did not have a material impact on Net Income Attributable to Legg Mason, Inc.

In connection with the combination, Legg Mason expects to incur total restructuring and transition-related charges of approximately $91,000 to $100,000, primarily comprised of charges for employee termination benefits, including severance and retention incentives, and real estate related charges. Total charges for restructuring and transition costs of $67,559 have been recognized through June 30, 2016, which includes $24,263 for the three months ended June 30, 2016. These costs are primarily recorded as Compensation and benefits in the Consolidated Statement of Income. Legg Mason expects that substantially all of the $23,000 to $32,000 of remaining anticipated costs associated with the combination will be incurred during the remainder of calendar 2016.

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The table below presents a summary of changes in the restructuring and transition-related liability from December 31, 2015 through June 30, 2016, and cumulative charges incurred to date:

	Compensation	Other	Total
Balance as of December 31, 2015	$ —	$—	$—
Accrued charges	31,581	9,981 (1)	41,562
Payments	(21,938)	(2,097)	(24,035)
Balance as of March 31, 2016	9,643	7,884	17,527
Accrued charges	13,886	6,867 (1)	20,753
Payments	(6,995)	(1,361)	(8,356)
Balance as of June 30, 2016	$ 16,534	$13,390	$29,924
Non-cash charges[(2)]			
Year ended March 31, 2016	$ 591	$1,143	$1,734
Three months ended June 30, 2016	1,100	2,410	3,510
Total	$ 1,691	$3,553	$5,244
Cumulative charges incurred through June 30, 2016	$ 47,158	$20,401	$67,559

(1) Includes lease loss reserve for space permanently abandoned of $6,558 for the three months ended June 30, 2016, and $7,212 for the year ended March 31, 2016.

(2) Includes stock-based compensation expense and accelerated fixed asset depreciation.

Clarion Partners

On April 13, 2016, Legg Mason acquired a majority equity interest in Clarion Partners, a diversified real estate asset management firm headquartered in New York. Clarion Partners managed approximately $41,500,000 in AUM on the date of acquisition. Under the terms of the transaction, Legg Mason acquired an 82% ownership interest in Clarion Partners for a cash payment of $631,476 (including a payment for cash delivered of $36,772 and co-investments of $16,210), which was funded with a portion of the proceeds from the issuance of the 2026 Notes and the 2056 Notes in March 2016. The Clarion Partners management team retained 18% of the outstanding equity in Clarion Partners. The firm's previous majority owner sold its entire ownership interest in the transaction. The noncontrolling interests held by the management team can be put by the holders or called by Legg Mason for settlement at fair value subject to various conditions, including the passage of time. The fair value of the noncontrolling interests reflects the total business enterprise value, after appropriate discounts for lack of marketability and control.

Upon the acquisition, Legg Mason also granted certain key employees of Clarion Partners a total of 716 performance-based Legg Mason restricted share units with an aggregate fair value of $11,121, which vest upon Clarion Partners achieving a certain level of EBITDA, as defined in the award agreements, within a designated period after the closing of the acquisition. The aggregate value of the award was included in the purchase price and was determined as of the grant date using a Monte Carlo pricing model with the following assumptions:

Long-term EBITDA growth rate	6.0 %
Risk-free interest rate	2.3 %
Expected volatility:	
Legg Mason	38.0%
Clarion Partners	30.0

In conjunction with the transaction, Legg Mason also implemented an affiliate management equity plan for the management team of Clarion Partners, which resulted in a non-cash charge of $15,200 in the three months ended June 30, 2016. See Note 8 for additional information related to the Clarion Partners management equity plan.

Management preliminarily estimated the fair values of the indefinite-life intangible fund management contracts, indefinite-life trade name, and amortizable intangible asset management contracts based upon discounted cash flow

analyses, using unobservable market data inputs, which are Level 3 measurements. These analyses involve determining the appropriate

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level at which to account for each identifiable intangible asset, and making assumptions for useful lives, projected AUM growth, projected annual cash flows, and discount rates.

The fair values of the acquired amortizable asset management contracts had preliminary useful life estimates of four to seven years. Approximately 82% of the purchase price allocated to intangible assets and goodwill is expected to be deductible for U.S. tax purposes over a period of 15 years. Goodwill is principally attributable to synergies expected to arise with Clarion Partners.

In addition to the previously discussed charge of $15,200 incurred in connection with the implementation of the Clarion Partners management equity plan, during the three months ended June 30, 2016, there were $10,383 of costs incurred in connection with the acquisition of Clarion Partners.

The financial results of Clarion Partners included in Legg Mason's consolidated financial results for the three months ended June 30, 2016, include revenues of $56,691, and did not have a material impact to Net Income Attributable to Legg Mason, Inc.

Pro Forma Financial Information

The following unaudited pro forma financial information presents the combined financial results of Legg Mason, Clarion Partners, and EnTrust, as though the acquisitions had occurred as of April 1, 2015. The unaudited pro forma financial information reflects certain adjustments for amortization expense related to the fair value of acquired intangible assets, acquisition- and transition-related costs, interest expense related to debt incurred to finance the acquisitions, and the income tax impact of the pro forma adjustments. The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of the financial results that would have been achieved had the acquisitions actually occurred at the beginning of the first period presented. Further, adjustments relating to asset management contract assets are preliminary, and subject to revision, as described above.

	Three Months Ended June 30,	
	2016	2015
Revenues	$717,516	$791,786
Net Income Attributable to Legg Mason, Inc.	68,281	54,441
Net Income Per Share Attributable to Legg Mason, Inc. Shareholders:		
Basic	0.63	0.49
Diluted	0.63	0.48

RARE Infrastructure Limited

On October 21, 2015, Legg Mason acquired a majority equity interest in RARE Infrastructure Limited ("RARE Infrastructure"). RARE Infrastructure specializes in global listed infrastructure security investing, is headquartered in Sydney, Australia, and had approximately $6,800,000 in AUM at the closing of the transaction. Under the terms of the related transaction agreements, Legg Mason acquired a 75% ownership interest in the firm, the firm's management team retained a 15% equity interest and The Treasury Group, a continuing minority owner, retained 10%. The acquisition required an initial cash payment of $213,739 (using the foreign exchange rate as of October 21, 2015 for the 296,000 Australian dollar payment), which was funded with approximately $40,000 of net borrowings under the Company's previous revolving credit facility, as well as existing cash resources. In August 2015, Legg Mason executed a currency forward contract to economically hedge the risk of movement in the exchange rate between the U.S. dollar and the Australian dollar in which the initial cash payment was denominated. This currency forward contract was closed in October 2015. See Note 12 for additional information regarding derivatives and hedging. In addition, contingent consideration may be due March 31, 2017 and 2018, aggregating up to $78,911 (using the foreign exchange rate as of June 30, 2016, for the maximum 106,000 Australian dollar amount per the related agreements), dependent on the achievement of certain net revenue targets, and subject to potential catch-up adjustments extending

through March 31, 2019.

The noncontrolling interests can be put by the holders or called by Legg Mason for settlement at fair value, except for the non-management portion of the noncontrolling interests, which are callable at a pre-agreed formula, as specified in the agreements. The fair value of the noncontrolling interests reflects the total business enterprise value, after appropriate discounts for lack of marketability and control.

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Management estimated the fair values of the indefinite-life intangible fund management contracts, indefinite-life trade name, and amortizable intangible asset management contracts based upon discounted cash flow analyses, using unobservable market data inputs, which are Level 3 measurements. The significant assumptions used in these analyses at acquisition, including projected annual cash flows, projected AUM growth rates and discount rates, are summarized as follows:

	Projected Cash Flow Growth	Discount Rate
Indefinite-life intangible fund management contracts and indefinite-life trade name	0% to 10% (weighted-average - 7%)	16.5%

	Projected AUM Growth / (Attrition)	Discount Rate
Amortizable intangible asset management contracts	7% / (8)%	16.5%

The fair value of the acquired amortizable intangible asset management contracts had a useful life of 12 years at acquisition. Purchase price allocated to intangible assets and goodwill is not deductible for Australian tax purposes. Goodwill is principally attributable to synergies expected to arise with RARE Infrastructure.

The fair value of the contingent consideration was estimated using Monte Carlo simulation in a risk-neutral framework with various observable inputs, as well as, with various unobservable data inputs which are Level 3 measurements. The simulation considered variables, including AUM growth and performance fee levels. Consistent with risk-neutral framework, projected AUM and performance fees were dampened by a measure of risk referred to as 'market price of risk' to account for its market risk or systematic risk before calculating the earn-out payments. These earn-out payments were then discounted commensurate with their timing. A summary of various assumption values follows:

AUM growth rates	0% to 14% (weighted-average - 7%)
Performance fee growth rates	0% to 7% (weighted-average - 3%)
Projected AUM and performance fee market price of risk	6.5%
AUM volatility	20.0%
Earn-out payment discount rate	1.9%

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

The contingent consideration liability established at closing had an acquisition date fair value of $25,000 (using the foreign exchange rate as of October 21, 2015). As of June 30, 2016, the fair value of the contingent consideration liability was $26,465, of which $6,794 relates to the first anniversary payment and is included in current Contingent consideration in the Consolidated Balance Sheet, with the remainder included in non-current Contingent consideration in the Consolidated Balance Sheet. The decrease of $680 from March 31, 2016, was attributable to changes in the exchange rate, which is included in Accumulated other comprehensive loss, net, as Foreign currency translation adjustment, and accretion. The contingent consideration liability is recorded at an entity with an Australian dollar functional currency, such that related changes in the exchange rate do not impact net income.

The Company has not presented pro forma combined results of operations for this acquisition because the results of operations as reported in the accompanying Consolidated Statements of Income would not have been materially different. The financial results of RARE Infrastructure included in Legg Mason's consolidated financial results for the three months ended June 30, 2016, include revenues of $10,506, and did not have a material impact on Net Income Attributable to Legg Mason, Inc.

Martin Currie (Holdings) Limited
On October 1, 2014, Legg Mason acquired all outstanding equity interests of Martin Currie (Holdings) Limited ("Martin Currie"), an international equity specialist based in the United Kingdom. The acquisition required an initial payment of $202,577 (using the foreign exchange rate as of October 1, 2014 for the £125,000 contract amount), which was funded from existing cash. In addition, contingent consideration payments may be due March 31 following the second and third anniversaries of closing, aggregating up to approximately $430,349 (using the foreign exchange rate as of June 30, 2016 for the maximum £325,000 contract amount), inclusive of the payment of certain potential pension and other obligations, and dependent on the achievement of certain financial metrics at March 31, 2017, and 2018, as specified in the share purchase

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agreement. The agreement provided for a potential first anniversary payment due as of March 31, 2016, however no such payment was due based on relevant financial metrics.

The fair value of the amortizable intangible asset management contracts asset is being amortized over a period of 12 years. Goodwill is principally attributable to synergies expected to arise with Martin Currie. These acquired intangible assets and goodwill are not deductible for U.K. tax purposes.

Management estimated the fair values of the indefinite-life intangible fund management contracts, indefinite-life trade name, and amortizable intangible asset management contracts based upon discounted cash flow analyses, using unobservable market data inputs, which are Level 3 measurements. The significant assumptions used in these analyses at acquisition, including projected annual cash flows, projected AUM growth rates and discount rates, are summarized as follows:

	Projected Cash Flow Growth	Discount Rate
Indefinite-life intangible fund management contracts and indefinite-life trade name	0% to 25% (weighted-average - 11%)	15.0%

	Projected AUM Growth / (Attrition)	Discount Rate
Amortizable intangible asset management contracts	6% / (17)%	15.0%

The fair value of the contingent consideration was measured using Monte Carlo simulation with various unobservable market data inputs, which are Level 3 measurements. The simulation considered variables, including AUM growth, performance fee levels and relevant product performance. Projected AUM, performance fees and earn-out payments were discounted as appropriate. A summary of various assumption values follows:

AUM growth rates	0% to 28% (weighted-average - 14%)
Performance fee growth rates	0% to 30% (weighted-average - 15%)
Discount rates:	
Projected AUM	13.0%
Projected performance fees	15.0%
Earn-out payments	1.3%
AUM volatility	18.8%

Significant future increases (decreases) in projected AUM or performance fees would result in a significantly higher (lower) contingent consideration liability fair value.

The contingent consideration liability established at closing had an acquisition date fair value of $75,211 (using the foreign exchange rate as of October 1, 2014). Actual payments to be made may also include amounts for certain potential pension and other obligations that are accounted for separately. As of June 30, 2016, the fair value of the contingent consideration liability was $20,181, a decrease of $21,041 from March 31, 2016. During the three months ended June 30, 2016 a reduction in projected AUM and performance fees resulted in an $18,000 reduction in the estimated contingent consideration liability, recorded as a credit to Other operating expense in the Consolidated Statement of Income. The remaining decrease of $3,041 related to the exchange rate, which is included in Accumulated other comprehensive loss, net, as Foreign currency translation adjustment, net of accretion, also impacted the contingent consideration liability. The contingent consideration liability is recorded at an entity with a British pound functional currency, such that related changes in the exchange rate do not impact net income. The total contingent consideration liability as of June 30, 2016, is included in non-current Contingent consideration in the Consolidated Balance Sheet.

Martin Currie Defined Benefit Pension Plan

Martin Currie sponsors a retirement and death benefits plan, a defined benefit pension plan with assets held in a separate trustee-administered fund. Plan assets are measured at fair value and comprised of 58% equities (Level 1), 39% bonds (Level 2) and 3% cash (Level 1) as of June 30, 2016, and 60% equities (Level 1) and 40% bonds (Level 2) as of March 31, 2016. Assumptions used to determine the expected return on plan assets targets a 55% / 45% equity/bond allocation with reference to the 15-year FTSE U.K. Gilt yield for equities and U.K. long-dated bond yields for bonds. Plan liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate on a high quality bond in the local U.K. market and currency. There were no significant concentrations of risk in plan assets as

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of June 30, 2016. The most recent actuarial valuation was performed as of May 31, 2013, which was updated through the acquisition and at subsequent balance sheet dates. Accrual of service credit under the plan ceased on October 3, 2014.

The resulting net benefit obligation, comprised as follows, is included in the June 30, 2016 and March 31, 2016, Consolidated Balance Sheets as Other non-current liabilities:

	June 30, 2016	March 31, 2016
Fair value of plan assets (at 5.4% and 5.2%, respectively, expected weighted-average long-term return)	$56,448	$57,253
Benefit obligation (at 3.1% and 3.6%, respectively, discount rate)	(90,311)	(90,010)
Unfunded status (excess of benefit obligation over plan assets)	$(33,863)	$(32,757)

For the three months ended June 30, 2016 and 2015, a net periodic cost of $28 and $26, respectively, was included in Compensation and benefits expense in the Consolidated Statements of Income. Net actuarial losses of $11,926 and $6,821 were included in Accumulated other comprehensive loss, net, in the Consolidated Balance Sheets at June 30, 2016 and March 31, 2016, respectively.

The contingent consideration payments may provide some funding of the net plan benefit obligation, through a provision of the share purchase agreement requiring certain amounts to be paid to the plan. Any contingent consideration payments to the plan are based on determination of the plan benefit obligation under local technical provisions utilized by the plan trustees. Absent any such funding or any regulatory requirement for additional payments, Martin Currie does not expect to contribute any additional amounts in fiscal 2017 to the plan in excess of the $2,152 contributed during the three months ended June 30, 2016.

The contingent consideration provisions of the share purchase agreement also require a designated percentage of the earn-out payments, net of any pension contribution, to be allocated to fund an incentive plan for Martin Currie's management. No payments to employees under the arrangement will be made until the end of the earn-out period. The estimated payment (adjusted quarterly) is being amortized over the earn-out term.

Other

In December 2015, Martin Currie acquired certain assets of PK Investment Management, LLP ("PK Investments"), a London based equity manager, for an initial cash payment of $4,981 and an estimated contingent payment of $2,477 due on December 31, 2017. The amount of any ultimate contingent payment will be based on certain financial metrics. The initial cash payment was funded with existing cash resources. In connection with the acquisition, Legg Mason recognized indefinite-life intangible fund management contracts and goodwill of $6,619 and $827, respectively.

QS Investors Holdings, LLC

Effective May 31, 2014, Legg Mason acquired all of the outstanding equity interests of QS Investors, a customized solutions and global quantitative equities provider. The initial purchase price was a cash payment of $11,000, funded from existing cash. In addition, contingent consideration of up to $10,000 and $20,000 for the second and fourth anniversary payments may be due in July 2016 (to be paid in August 2016) and July 2018, respectively, dependent on the achievement of certain net revenue targets, and subject to a potential catch-up adjustment in the fourth anniversary payment for any second anniversary payment shortfall.

The fair value of the amortizable intangible asset management contracts had a useful life of 10 years at acquisition. Purchase price allocated to goodwill is expected to be deductible for U.S. tax purposes over a period of 15 years.

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Management estimated the fair values of the amortizable intangible asset management contracts based upon a discounted cash flow analysis, and the contingent consideration expected to be paid and discounted, based upon probability-weighted revenue projections, using unobservable market data inputs, which are Level 3 measurements. The significant assumptions used in these analyses at acquisition including projected annual cash flows, revenues and discount rates, are summarized as follows:

	Projected Cash Flow Attrition, Net	Discount Rate
Amortizable intangible asset management contracts	(10.0)%	15.0%

	Projected Revenue Growth Rates	Discount Rates
Contingent consideration	0% to 10% (weighted-average - 6%)	1.2% / 2.1%

Goodwill is principally attributable to synergies expected to arise with QS Investors.

The contingent consideration liability established at closing had an acquisition date fair value of $13,370. As of June 30, 2016, the fair value of the contingent consideration liability has accreted to $13,800, an increase of $51 from March 31, 2016. Of the $13,800, $6,559 relates to the second anniversary payment and is included in current Contingent consideration in the Consolidated Balance Sheet, with the remainder included in non-current Contingent consideration in the Consolidated Balance Sheet as of June 30, 2016.

Precidian Investments, LLC

On January 22, 2016, Legg Mason acquired a minority equity position in Precidian Investments, LLC ("Precidian"), a firm specializing in creating innovative products and solutions and solving market structure issues, particularly with regard to the Exchange Traded Funds marketplace.

The transaction required a cash payment, which was funded from existing cash resources. Under the terms of the transaction, Legg Mason acquired series B preferred units of Precidian that entitle Legg Mason to approximately 20% of the voting and economic interests of Precidian, along with customary preferred equity protections. At its sole option during the 48 months following the initial investment, Legg Mason may, subject to satisfaction of certain closing conditions and upon payment of further consideration, convert its preferred units to 75% of the common equity of Precidian on a fully diluted basis.

Legg Mason accounts for its investment in Precidian, which is included in Other assets in the Consolidated Balance Sheet as of June 30, 2016 and March 31, 2016, under the equity method of accounting.

Fauchier Partners Management, Limited

On March 13, 2013, Permal acquired all of the outstanding share capital of Fauchier Partners Management, Limited ("Fauchier"), a European based manager of funds-of-hedge funds. The initial purchase price was a cash payment of $63,433, which was funded from existing cash resources. In May 2015, Legg Mason paid contingent consideration of $22,765 (using the exchange rate as of May 5, 2015 for the maximum £15,000 payment amount) for the second anniversary payment. Additional contingent consideration of up to approximately $26,483 (using the exchange rate as of June 30, 2016 for the £20,000 maximum contract amount), may be due on or about the fourth anniversary of closing, dependent on achieving certain levels of revenue, net of distribution costs.

As of June 30, 2016 and March 31, 2016, no contingent consideration liability was included in the Consolidated Balance Sheets.

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4. Investments and Fair Values of Assets and Liabilities

The disclosures below include details of Legg Mason's financial assets and financial liabilities that are measured at fair value, excluding the financial assets and financial liabilities of CIVs. See Note 13, Variable Interest Entities and Consolidation of Investment Vehicles, for information related to the assets and liabilities of CIVs that are measured at fair value.

Effective April 1, 2016, Legg Mason adopted updated accounting guidance on fair value measurement which removed both the requirement to categorize within the fair value hierarchy and the requirement to provide related sensitivity disclosures for all investments for which fair value is measured using net asset value ("NAV") as a practical expedient. The amount of these investments is disclosed separately in the following tables as a reconciling item between investments included in the fair value hierarchy and investments reported in the Consolidated Balance Sheets. The updated guidance was adopted on a retrospective basis, therefore, the investment amounts for which fair value is measured using NAV as a practical expedient have been removed from the fair value hierarchy for all periods presented.

The fair values of financial assets and (liabilities) of the Company were determined using the following categories of inputs:

	As of June 30, 2016				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV[1]	Total
Assets:					
Cash equivalents:[2]					
Money market funds	$196,414	$—	$—	$—	$196,414
Time deposits and other	—	8,846	—	—	8,846
Total cash equivalents	196,414	8,846	—	—	205,260
Trading investments of proprietary fund products and other trading investments:[3]					
Seed capital investments	144,774	89,719	—	4,911	239,404
Other[4]	52,623	2,482	—	11	55,116
Trading investments relating to long-term incentive compensation plans[5]	137,996	—	—	919	138,915
Equity method investments relating to proprietary fund products and long-term incentive compensation plans:[6]					
Seed capital investments	—	4,965	—	—	4,965
Investments related to long-term incentive compensation plans	—	6,660	2,587	—	9,247
Total current investments[7]	335,393	103,826	2,587	5,841	447,647
Equity method investments in partnerships and LLCs:[6][8]					
Investments in real estate funds	—	—	24,513	—	24,513
Other proprietary fund products[7]	—	—	644	41,740	42,384
Investments in partnerships and LLCs:[8]					
	—	—	7,501	—	7,501

Investments related to long-term incentive compensation plans					
Other proprietary fund products	—	93	3,810	3,397	7,300
Derivative assets[8][9]	977	—	—	—	977
Other investments[8]	—	—	90	—	90
Total	$532,784	$112,765	$ 39,145	$ 50,978	$735,672
Liabilities:					
Contingent consideration liabilities[10]	$—	$—	$ (62,923)	$ —	$(62,923)
Derivative liabilities[8]	(5,371)	(4,369)	—	—	(9,740)
Total	$(5,371)	$(4,369)	$ (62,923)	$ —	$(72,663)

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	As of March 31, 2016				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV[1]	Total
Assets:					
Cash equivalents:[2]					