LEGG MASON, INC.
Form 10-Q
August 04, 2017
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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, 2017
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-8529
LEGG MASON, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	X	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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.
93,599,404 shares of common stock as of the close of business on August 1, 2017.

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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, 2017	March 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$491,301	$733,709
Cash and cash equivalents of consolidated investment vehicles	679	651
Restricted cash	15,152	16,046
Receivables:		
Investment advisory and related fees	480,269	433,192
Other	64,631	70,527
Investment securities	394,960	423,619
Investment securities of consolidated investment vehicles	81,401	49,901
Other	74,942	74,102
Other current assets of consolidated investment vehicles	2,266	—
Total Current Assets	1,605,601	1,801,747
Fixed assets, net	156,008	159,662
Intangible assets, net	3,999,526	4,034,380
Goodwill	1,924,211	1,924,889
Deferred income taxes	202,823	202,843
Other	156,292	156,907
Other assets of consolidated investment vehicles	9,968	9,987
TOTAL ASSETS	$8,054,429	$8,290,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accrued compensation	$285,320	$486,679
Accounts payable and accrued expenses	194,755	181,793
Contingent consideration	14,986	22,316
Other	89,573	117,863
Other current liabilities of consolidated investment vehicles	1,750	736
Total Current Liabilities	586,384	809,387
Deferred compensation	103,624	87,757
Deferred income taxes	320,113	329,229
Contingent consideration	5,711	14,494
Other	137,768	138,737
Long-term debt, net	2,221,853	2,221,867
TOTAL LIABILITIES	3,375,453	3,601,471
Commitments and Contingencies (Note 8)		
REDEEMABLE NONCONTROLLING INTERESTS	684,203	677,772

STOCKHOLDERS' EQUITY		
Common stock, par value $.10; authorized 500,000,000 shares; issued 94,119,547 shares for June 2017 and 95,726,628 shares for March 2017	9,412	9,573
Additional paid-in capital	2,311,752	2,385,726
Employee stock trust	(24,122)	(24,057)
Deferred compensation employee stock trust	24,122	24,057
Retained earnings	1,741,362	1,694,859
Accumulated other comprehensive loss, net	(95,994)	(106,784)
Total stockholders' equity attributable to Legg Mason, Inc.	3,966,532	3,983,374
Nonredeemable noncontrolling interest	28,241	27,798
TOTAL STOCKHOLDERS' EQUITY	3,994,773	4,011,172
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$8,054,429	$8,290,415

See Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,	
	2017	2016
OPERATING REVENUES		
Investment advisory fees:		
Separate accounts	$250,046	$226,853
Funds	382,228	363,463
Performance fees	81,537	17,459
Distribution and service fees	78,906	91,382
Other	1,125	1,008
Total Operating Revenues	793,842	700,165
OPERATING EXPENSES		
Compensation and benefits	413,307	358,625
Distribution and servicing	122,349	124,663
Communications and technology	50,303	52,732
Occupancy	24,408	33,142
Amortization of intangible assets	6,339	5,703
Impairment charges	34,000	—
Contingent consideration fair value adjustments	(16,550)	(18,000)
Other	52,481	69,745
Total Operating Expenses	686,637	626,610
OPERATING INCOME	107,205	73,555
NON-OPERATING INCOME (EXPENSE)		
Interest income	1,468	1,848
Interest expense	(29,266)	(24,565)
Other income, net	11,388	6,585
Non-operating income of consolidated investment vehicles, net	997	3,228
Total Non-Operating Income (Expense)	(15,413)	(12,904)
INCOME BEFORE INCOME TAX PROVISION	91,792	60,651
Income tax provision	28,255	15,311
NET INCOME	63,537	45,340
Less: Net income attributable to noncontrolling interests	12,617	11,888
NET INCOME ATTRIBUTABLE TO LEGG MASON, INC.	$50,920	$33,452
NET INCOME PER SHARE ATTRIBUTABLE TO LEGG MASON, INC. SHAREHOLDERS:		
Basic	$0.52	$0.31
Diluted	0.52	0.31
DIVIDENDS DECLARED PER SHARE	$0.28	$0.22

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,	
	2017	2016
NET INCOME	$63,537	$45,340
Other comprehensive income (loss):		
Foreign currency translation adjustment	10,671	(16,183)
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)
Actuarial losses on defined benefit pension plan:		
Actuarial losses on defined benefit pension plan	—	(6,112)
Reclassification of unrecognized loss on defined benefit pension plan	119	—
Net actuarial losses on defined benefit pension plan	119	(6,112)
Total other comprehensive income (loss)	10,790	(24,978)
COMPREHENSIVE INCOME	74,327	20,362
Less: Comprehensive income attributable to noncontrolling interests	12,284	13,886
COMPREHENSIVE INCOME ATTRIBUTABLE TO LEGG MASON, INC.	$62,043	$6,476

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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,	
	2017	2016
STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.		
COMMON STOCK		
Beginning balance	$9,573	$10,701
Stock options exercised	26	7
Deferred compensation employee stock trust	1	1
Stock-based compensation	83	34
Employee tax withholdings by settlement of net share transactions	(34)	(36)
Shares repurchased and retired	(237)	(347)
Ending balance	9,412	10,360
ADDITIONAL PAID-IN CAPITAL		
Beginning balance	2,385,726	2,693,113
Stock options exercised	7,380	1,803
Deferred compensation employee stock trust	125	122
Stock-based compensation	20,710	25,860
Performance-based restricted share units related to the acquisition of Clarion Partners	—	11,121
Employee tax withholdings by settlement of net share transactions	(12,777)	(11,625)
Shares repurchased and retired	(89,412)	(111,326)
Redeemable noncontrolling interest reclassification for affiliate management equity plans	—	(3,632)
Ending balance	2,311,752	2,605,436
EMPLOYEE STOCK TRUST		
Beginning balance	(24,057)	(26,263)
Shares issued to plans	(126)	(123)
Distributions and forfeitures	61	760
Ending balance	(24,122)	(25,626)
DEFERRED COMPENSATION EMPLOYEE STOCK TRUST		
Beginning balance	24,057	26,263
Shares issued to plans	126	123
Distributions and forfeitures	(61)	(760)
Ending balance	24,122	25,626
RETAINED EARNINGS		
Beginning balance	1,694,859	1,576,242
Net Income Attributable to Legg Mason, Inc.	50,920	33,452
Dividends declared	(27,352)	(23,581)
Reclassifications to noncontrolling interest for:		
EnTrustPermal combination	—	(15,500)
Net increase in estimated redemption value of affiliate management equity plans and affiliate noncontrolling interests	(1,392)	(619)
Adoption of new stock-based compensation guidance	24,327	—
Ending balance	1,741,362	1,569,994
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET		
Beginning balance	(106,784)	(66,493)
Net unrealized losses on interest rate swap	—	(2,683)

Net actuarial losses on defined benefit pension plan	119	(6,112)
Foreign currency translation adjustment	10,671	(16,183)
Ending balance	(95,994)	(91,471)
TOTAL STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC.	3,966,532	4,094,319
NONREDEEMABLE NONCONTROLLING INTEREST		
Beginning balance	27,798	22,202
Net income attributable to noncontrolling interests	2,261	1,851
Distributions	(1,818)	(802)
Ending balance	28,241	23,251
TOTAL STOCKHOLDERS' EQUITY	$3,994,773	$4,117,570

See Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$63,537	$45,340
Adjustments to reconcile Net Income to net cash used in operations:		
Impairments of intangible assets	34,000	—
Depreciation and amortization	18,473	20,918
Accretion and amortization of securities discounts and premiums, net	936	659
Stock-based compensation, including $15,200 related to Clarion Partners affiliate management equity plan in 2016	21,068	37,471
Net unrealized (gains) losses on investments	(5,496)	(3,107)
Net (gains) and earnings on investments	(5,546)	(2,568)
Net (gains) losses of consolidated investment vehicles	(997)	(3,199)
Deferred income taxes	22,183	16,093
Contingent consideration fair value adjustments	(16,550)	(18,000)
Other	(76)	1,419
Decrease (increase) in assets:		
Investment advisory and related fees receivable	(46,340)	4,564
Net sales of trading and other investments	41,370	16,392
Other receivables	(9,778)	(8,930)
Other assets	(1,330)	3,685
Assets of consolidated investment vehicles	(32,803)	(40,705)
Increase (decrease) in liabilities:		
Accrued compensation	(201,486)	(236,848)
Deferred compensation	15,718	20,076
Accounts payable and accrued expenses	12,378	17,145
Other liabilities	(23,855)	(38,509)
Other liabilities of consolidated investment vehicles	1,014	2,134
CASH USED IN OPERATING ACTIVITIES	$(113,580)	$(165,970)

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

	Three Months Ended June 30,	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for fixed assets	$(8,371)	$(11,971)
Business acquisitions, net of cash acquired of $33,543 in 2016	—	(997,933)
Contingent payment from prior sale of business	2,561	—
Change in restricted cash	1,117	1,088
Returns of capital and proceeds from sales and maturities of investments	200	1,000
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(4,493)	(1,007,816)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	—	460,000
Debt issuance costs	—	(806)
Issuances of common stock for stock-based compensation	7,532	1,933
Employee tax withholdings by settlement of net share transactions	(12,811)	(11,661)
Repurchases of common stock	(89,649)	(111,673)
Dividends paid	(21,153)	(21,878)
Distributions to affiliate noncontrolling interests	(17,731)	(2,306)
Net subscriptions/(redemptions) attributable to noncontrolling interests	10,266	21,371
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(123,546)	334,980
EFFECT OF EXCHANGE RATES ON CASH	(789)	368
NET DECREASE IN CASH AND CASH EQUIVALENTS	(242,408)	(838,438)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	733,709	1,329,126
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$491,301	$490,688
SUPPLEMENTAL DISCLOSURE		
Cash paid for:		
Income taxes, net of refunds of $1,903 in 2017	$8,132	$5,483
Interest	11,094	5,842

See Notes to Consolidated Financial Statements

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LEGG MASON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts or unless otherwise noted)
June 30, 2017
(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 Form 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, including amounts for cash flows, comprehensive income, and changes in equity.

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 products. 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 products. In accordance with financial accounting standards, Legg Mason consolidates certain sponsored investment products, some of which are designated and reported as consolidated investment vehicles (“CIVs”). The consolidation of sponsored investment products, 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 products is recorded in Non-Operating Income (Expense) and reflected in Net income attributable to noncontrolling interests.

Certain of the investment products Legg Mason sponsors and manages 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. Legg Mason may fund the initial cash investment in certain VRE investment products 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, the products with “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, 2017, March 31, 2017, and June 30, 2016, 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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Under consolidation accounting guidance, if limited partners or similar equity holders 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. Market-based fees are those fees which are both customary and commensurate with the level of effort required for the services provided. 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.

Legg Mason concluded it was the primary beneficiary of three foreign mutual fund VIEs as of each June 30, 2017 and March 31, 2017, and of nine foreign mutual fund VIEs as of June 30, 2016, which were consolidated and designated as CIVs, because it held significant financial interests in these funds. Legg Mason also concluded it was the primary beneficiary of two sponsored investment fund VIEs, and one employee-owned fund that it sponsors, as of each June 30, 2017, March 31, 2017, and June 30, 2016, which were also consolidated and designated as CIVs.

On June 6, 2017, Legg Mason entered into four total return swap arrangements with financial intermediaries with respect to one sponsored exchange traded fund ("ETF") which resulted in investments in the ETF by those intermediaries in the amount of $20,253, as further described in Note 12. Under the terms of the total return swaps, Legg Mason absorbs all gains and losses on the underlying ETF investments of these financial intermediaries, and therefore has variable interests in the fund, and is deemed to be the primary beneficiary. As such, the underlying sponsored investment fund was consolidated and designated a CIV during the three months ended June 30, 2017.

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

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 Contingent consideration fair value adjustments 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 products, and vested affiliate management equity plan interests. For CIVs and other consolidated sponsored investment products 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 and affiliate minority 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. Changes in the expected settlement values are recognized over the settlement period as adjustments to 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.

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Legg Mason estimates the settlement value of noncontrolling interests as their fair value. For consolidated sponsored investment products, where the investor may request withdrawal at any time, fair value is based on market quotes of the underlying securities held by the investment products. 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.

Derivative Instruments
As noted above, on June 6, 2017, Legg Mason entered into four total return swap arrangements with financial intermediaries with respect to one Legg Mason sponsored ETF for a total notional amount of $20,253 which resulted in investments in the ETF by these intermediaries. The total return swap arrangements qualify as derivative instruments and are not designated for hedge accounting. In connection with the arrangements, Legg Mason also executed a futures contract to partially hedge the market risk related to the total return swap arrangements. See Notes 4, 12, and 13 for additional information.

Stock-Based Compensation
Effective April 1, 2017, Legg Mason adopted updated accounting guidance on stock-based compensation accounting. The updated guidance simplifies several aspects of accounting for stock-based compensation including the income tax consequences, and clarifies classification criteria for awards as either equity or liabilities, and the classification of related amounts in statements of cash flows. The updated guidance requires all excess tax benefits and deficiencies associated with stock-based compensation to be recognized as discrete items in the Income tax provision in the Consolidated Statements of Income in the reporting period in which they occur, thereby increasing the volatility of the Income tax provision as a result of fluctuations in Legg Mason's stock price. Legg Mason adopted this amendment on a modified retrospective basis, and recorded a cumulative-effect adjustment of $24,327 as an increase to both deferred tax assets and Retained earnings on the Consolidated Balance Sheet as of April 1, 2017. These tax benefits were not previously recognized due to Legg Mason's cumulative tax loss position. In addition, Legg Mason recorded a related discrete Income tax expense of $906 during the three months ended June 30, 2017, for vested stock awards with a grant date exercise price higher than the related vesting date stock price, as this aspect of the guidance was adopted on a prospective basis. Upon adoption of the updated guidance, Legg Mason elected to prospectively account for forfeitures as they occur, which did not have a material impact on the Consolidated Financial Statements. Also, cash flows related to income tax deductions in excess of or less than the related stock-based compensation expense will be classified as Cash Flows from Operating Activities in the Consolidated Statements of Cash Flows.

Accumulated Other Comprehensive Loss, Net
There were no significant amounts reclassified from Accumulated other comprehensive loss, net, to the Consolidated Statements of Income, except as follows. During the three months ended June 30, 2017, $119 of previously unrecognized losses on a defined benefit pension plan were reclassified and expensed as further described in Note 3, and during the three months ended June 30, 2016, $527 realized on the settlement of an interest rate swap was reclassified and expensed, as further described in Note 7.

Income Taxes

Noncontrolling interests in EnTrustPermal Group Holdings, LLC ("EnTrustPermal"), Clarion Partners, LLC ("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 3.5 percentage points and 4.8 percentage points for the three months ended June 30, 2017 and 2016, respectively.

In connection with the adoption of updated accounting guidance on stock-based compensation accounting discussed above, Legg Mason recorded a discrete income tax expense of approximately $906 during the three months ended June 30, 2017, which increased the effective tax rate by 1.0 percentage point.

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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 service or other contract, to determine whether the contract is or contains a lease. The guidance will be effective for Legg Mason in fiscal 2020. Legg Mason expects to recognize right of use assets and liabilities upon its adoption of the new standard and is continuing to evaluate the full impact of its adoption.

In May 2014, the FASB updated the guidance on revenue recognition. The updated guidance provides a single, comprehensive revenue recognition model for all contracts with customers, improves comparability and removes inconsistencies in revenue recognition practices across entities, industries, jurisdictions, and capital markets. The guidance also requires comprehensive disclosures about the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments made in applying the guidance. 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. Legg Mason is currently reviewing its revenue contracts, and monitoring relevant implementation guidance. Legg Mason does not anticipate any significant changes to current revenue recognition practices, except as discussed below. Legg Mason may be required to recognize longer-term performance and incentive fees subject to clawback when clawback is not reasonably possible, which is earlier than under its current revenue recognition process, which defers recognition until all contingencies are resolved. Additionally, Legg Mason is evaluating whether certain separate account commissions currently expensed when paid meet the criteria for capitalization and amortization. Legg Mason is also evaluating whether revenue-related costs currently presented on a gross basis will be recorded net, or vice versa. The evaluation of the effect of this guidance is ongoing, and Legg Mason has not determined the ultimate impact of the adoption or the transition method to be used upon adoption, which is effective for Legg Mason on April 1, 2018.

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3. Acquisitions

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 interests	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	262,300	505,200	122,755	135,321	—
Indefinite-life trade name	7,400	23,100	4,766	7,130	—
Amortizable intangible asset management contracts	65,500	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)	—	—
Liabilities, net	(8,823)	(10,579)	(3,948)	(4,388)	(6,620)
Pension liability	—	—	—	(32,433)	—
Deferred tax liabilities	—	(36,788)	(58,619)	(31,537)	—
Total identifiable assets and liabilities	377,162	667,652	139,178	119,500	7,460
Goodwill	$410,538	$80,245	$ 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.

EnTrust Capital

On May 2, 2016, Legg Mason acquired EnTrust Capital ("EnTrust") and combined it with The Permal Group, Ltd. ("Permal"), Legg Mason's existing hedge fund platform, to form EnTrustPermal. 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 $450,000 of 4.75% Senior Notes due 2026 (the "2026 Notes") and $250,000 of 6.375% Junior Subordinated Notes due 2056 (the "6.375% 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 of the combined entity, after appropriate discounts for lack of marketability and control.

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The fair value of the acquired amortizable intangible asset management contracts had a useful life of approximately eight years at acquisition. 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 EnTrust.

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	(1)% to 5% (weighted-average: 4%)	14.5%
Indefinite-life trade name	6% to 14% (weighted-average: 6%)	14.5%

	Projected AUM Growth / (Attrition)	Discount Rate
Amortizable intangible asset management contracts	10% / (13)%	13.5%

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

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 of EnTrust and Permal, Legg Mason incurred total charges for restructuring and transition costs of $87,643 through June 30, 2017, which includes $2,562 recognized during the quarter ended June 30, 2017. These costs were primarily comprised of charges for employee termination benefits, including severance and retention incentives, which were recorded as Compensation and benefits, in the Consolidated Statements of Income, and real estate related charges, which were recorded as Occupancy, in the Consolidated Statements of Income. While the combination is substantially complete, Legg Mason expects to incur additional costs totaling $3,000 to $4,000 during the remainder of fiscal 2018 and fiscal 2019.

The table below presents a summary of changes in the restructuring and transition-related liability from December 31, 2015 through June 30, 2017, 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	22,891	11,075	(1)	33,966
Payments	(29,211)	(12,408)		(41,619)
Balance as of March 31, 2017	3,323	6,551		9,874
Accrued charges	923	194		1,117
Payments	(4,118)	(1,041)		(5,159)
Balance as of June 30, 2017	$ 128	$5,704		$5,832
Non-cash charges[2]				

Year ended March 31, 2016	$ 591	$1,143	$1,734
Year ended March 31, 2017	4,423	3,396	7,819
Three months ended June 30, 2017	1,441	4	1,445
Total	$ 6,455	$4,543	$10,998
Cumulative charges incurred through June 30, 2017	$ 61,850	$25,793	$87,643

(1) Includes lease loss reserve for space permanently abandoned of $9,069 for the year ended March 31, 2017, and $7,212 for the year ended March 31, 2016.
(2) Includes stock-based compensation expense and accelerated fixed asset depreciation.

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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. 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 6.375% 2056 Notes in March 2016. The Clarion Partners management team retained 18% of the outstanding equity in Clarion Partners. The Clarion Partners management team also retained rights to the full amount of performance fee revenues earned on historic AUM in place as of the closing of the acquisition. Performance fees earned on this historic AUM are fully passed through to employees as compensation, per the terms of the acquisition agreement, and recorded as compensation expense. Legg Mason expects the full pass through of performance fees to phase out approximately five years post-closing. 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 connection 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.

The fair value of the acquired amortizable intangible asset management contracts had an average useful life of approximately 10 years at acquisition. 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.

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	6% to 20% (weighted-average: 6%)	13.5%
Indefinite-life trade name	5% to 17% (weighted-average: 6%)	13.5%

	Projected AUM Growth / (Attrition)	Discount Rate
Amortizable intangible asset management contracts:	7% / (10)%	13.4%

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.

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Pro Forma Financial Information

The following unaudited pro forma financial information presents the combined financial results of Legg Mason, Clarion Partners, and EnTrust, for the initial period of the acquisitions as if each acquisition had occurred on 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, excludes projected cost savings, 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.

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

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 a continuing corporate 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, 2018, of up to $81,426 (using the foreign exchange rate as of June 30, 2017, 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 transaction also provided for a potential contingent payment as of March 31, 2017, however no such payment was due based on relevant net revenue targets.

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 of RARE Infrastructure, after appropriate discounts for lack of marketability and control.

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 was principally attributable to synergies expected to arise with RARE Infrastructure.

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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	Up to 10% (weighted-average: 7%)	16.5%
	Projected AUM Growth / (Attrition)	Discount Rate
Amortizable intangible asset management contracts	7% / (8)%	16.5%

During the three months ended June 30, 2017, the amortizable intangible asset management contracts asset and the trade name indefinite-life intangible asset were impaired by $32,000 and $2,000, respectively. See Note 6 for additional information.

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	Weighted-average: 7%
Performance fee growth rates	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, 2017, the fair value of the contingent consideration liability was $2,128, a decrease of $15,316 from March 31, 2017. During the three months ended June 30, 2017, reductions in projected AUM and revenues attributable in part to a large outflow during the quarter resulted in a $15,250 reduction in the estimated contingent consideration liability, recorded as a credit to Contingent consideration fair value adjustments in the Consolidated Statement of Income. The remaining decrease of $66 is attributable to changes in the exchange rate, which is included in Accumulated other comprehensive loss, net, as Foreign currency translation adjustment, and accretion. The total contingent consideration liability was included in non-current Contingent consideration in the Consolidated Balance Sheet as of June 30, 2017. As of March 31, 2017, the contingent consideration liability totaled $17,444, of which $7,791 was included in current Contingent consideration in the Consolidated Balance Sheet, with the remaining $9,653 included in non-current Contingent consideration. The contingent consideration liability was recorded at an entity with an Australian dollar functional currency, such that related changes in the exchange rate do not impact net income.

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, a contingent consideration payment may be due March 31, 2018, following the third anniversary of closing, of up to approximately $423,075 (using the foreign exchange rate as of June 30, 2017 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, 2018, as specified in the share purchase agreement. The agreement also provided for potential first and second anniversary contingent payments as of March 31, 2016 and 2017, respectively, however no such payments were due based on relevant financial metrics.

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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	Up 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	Weighted-average: 14%
Performance fee growth rates	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, 2017, the fair value of the contingent consideration liability was $12,480, an increase of $462 from March 31, 2017, which was attributable to changes in the exchange rate, which is included in Accumulated other comprehensive loss, net, as Foreign currency translation adjustment. The contingent consideration liability was included in current Contingent consideration in the Consolidated Balance Sheet as of June 30, 2017 and March 31, 2017, and recorded at an entity with a British pound functional currency, such that related changes in the exchange rate do not impact net income.

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 65% equities (Level 1), 34% bonds (Level 2) and 1% cash (Level 1) as of June 30, 2017, and 65% equities (Level 1) and 35% bonds (Level 2) as of March 31, 2017. Assumptions used to determine the expected return on plan assets targets a 60% / 40% 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 of June 30, 2017. The most recent actuarial valuation was performed as of May 31, 2013, which was updated through the acquisition and at subsequent balance sheet dates through March 31, 2017. Accrual of service credit under the plan ceased on October 3, 2014. Legg Mason uses the corridor approach to account for this plan. Under the corridor approach, actuarial gains and losses on plan assets and liabilities are deferred and reported as Other comprehensive income (loss). However, if at the beginning of the next fiscal year, the actuarial gains and losses exceed 10% of the greater of the fair value of the plan assets or the plan benefit obligation, the excess will be amortized as Compensation expense over the recovery period

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of 15 years. During the three months ended June 30, 2017, $119 of previously unrecognized losses were expensed under the corridor approach.

The resulting net benefit obligation, comprised as follows, is included in the June 30, 2017 and March 31, 2017, Consolidated Balance Sheets as Other non-current liabilities:

	June 30, 2017	March 31, 2017
Fair value of plan assets (at 5.4% expected weighted-average long-term return)	$62,893	$59,623
Benefit obligation (at 2.7% discount rate)	(99,802)	(97,137)
Unfunded status (excess of benefit obligation over plan assets)	$(36,909)	$(37,514)

For the three months ended June 30, 2017 and 2016, a net periodic benefit cost of $25 and $28, respectively, was included in Compensation and benefits expense in the Consolidated Statements of Income. Net actuarial losses of $17,202 and $16,681 were included in Accumulated other comprehensive loss, net, in the Consolidated Balance Sheets at June 30, 2017 and March 31, 2017, 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.

In connection with a review by the Pensions Regulator in the U.K. ("the Regulator") of the pension plan's current structure and funding status, Martin Currie and the trustees of the pension have agreed with the Regulator to a revised plan structure which will result in certain changes to the plan structure, including the redomiciliation of the plan in the U.K., additional guarantees and, following the application of any contingent consideration payments toward the pension deficit, provisions for accelerated funding of a portion of any remaining benefit obligation, in certain circumstances. Absent funding from contingent consideration payments, Martin Currie does not expect to contribute any additional amounts in fiscal 2018 to the plan in excess of the $1,919 contributed during the three months ended June 30, 2017.

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 $2,506 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. Additional contingent consideration of up to $20,000 for the fourth anniversary payment, and up to $3,400 for a potential catch-up adjustment for the second anniversary payment shortfall, may be due in July 2018, dependent on the achievement of certain net revenue targets.

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

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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%

As of June 30, 2017, the fair value of the contingent consideration liability was $3,583, a decrease of $1,258 from March 31, 2017. During the three months ended June 30, 2017, a reduction in projected net revenue resulted in a $1,300 reduction in the estimated contingent consideration liability, recorded as a credit to Contingent consideration fair value adjustments in the Consolidated Statement of Income. The reduction was offset in part by an increase of $42 attributable to accretion. The contingent consideration liability was included in non-current Contingent consideration in the Consolidated Balance Sheet as of June 30, 2017 and March 31, 2017.

Financial Guard, LLC

On August 17, 2016, Legg Mason acquired 82% of the equity interests in Financial Guard, LLC ("Financial Guard"), an online registered investment advisor and technology-enabled wealth management and investment advice platform. The acquisition required an initial cash payment, which was funded with existing cash resources, and a contingent payment of up to $3,000 based on certain metrics within the first year after the acquisition. In connection with the acquisition, Legg Mason recognized certain business assets and goodwill of $11,995. Legg Mason also committed to contribute up to $5,000 of additional working capital to Financial Guard, to be paid over the two-year period following the acquisition, of which $2,500 has been paid as of June 30, 2017. As of June 30, 2017 and March 31, 2017, no contingent consideration liability was recorded in the Consolidated Balance Sheet.

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 ETF 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 or, if earlier, within nine months of the SEC's approval of Precidian's application to operate its active shares product. 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, 2017 and March 31, 2017, under the equity method of accounting.

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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.

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

	As of June 30, 2017				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV	Total
Assets:					
Cash equivalents:(1)					
Money market funds	$225,358	$ —	$ —	$ —	$225,358
Time deposits and other	—	16,586	—	—	16,586
Total cash equivalents	225,358	16,586	—	—	241,944
Trading investments of proprietary fund products and other trading investments:(2)					
Seed capital investments	119,998	64,161	—	3,389	187,548
Other(3)	21,542	2,474	—	11	24,027
Trading investments relating to long-term incentive compensation plans(4)	175,036	—	—	105	175,141
Equity method investments relating to long-term incentive compensation plans(5)	—	—	1,349	6,895	8,244
Total current investments(6)	316,576	66,635	1,349	10,400	394,960
Equity method investments in partnerships and LLCs:(5)(7)					
Seed capital investments(6)	—	—	813	22,658	23,471
Seed capital investments in real estate funds	—	—	27,182	—	27,182
Other proprietary fund products	—	—	1,646	13,969	15,615
Investments in partnerships and LLCs:(7)					
Seed capital investments	—	—	—	3,277	3,277
Investments related to long-term incentive compensation plans	—	—	9,367	—	9,367
Other proprietary fund products	—	99	1,818	—	1,917
Derivative assets(7)(8)	3,083	—	—	—	3,083
Other investments(7)	—	—	112	—	112
Total	$545,017	$ 83,320	$ 42,287	$ 50,304	$720,928
Liabilities:					
Contingent consideration liabilities(9)	$—	$ —	$ (20,697)	$ —	$(20,697)
Derivative liabilities(8)	(274)	—	—	—	(274)
Total	$(274)	$ —	$ (20,697)	$ —	$(20,971)

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	As of March 31, 2017				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV	Total
Assets:					
Cash equivalents:[1]					
Money market funds	$403,585	$—	$—	$—	$403,585
Time deposits and other	—	35,835	—	—	35,835
Total cash equivalents	403,585	35,835	—	—	439,420
Trading investments of proprietary fund products and other trading investments:[2]					
Seed capital investments	141,025	75,275	—	4,373	220,673
Other[3]	39,177	2,724	—	11	41,912
Trading investments relating to long-term incentive compensation plans[4]	150,576	—	—	327	150,903
Equity method investments relating to proprietary fund products and long-term incentive compensation plans:[5]					
Seed capital investments	—	2,502	—	—	2,502
Investments related to long-term incentive compensation plans	—	—	1,337	6,292	7,629
Total current investments[6]	330,778	80,501	1,337	11,003	423,619
Equity method investments in partnerships and LLCs:[5][7]					
Seed capital investments[6]	—	—	752	22,712	23,464
Seed capital investments in real estate funds	—	—	26,909	—	26,909
Other proprietary fund products	—	—	1,646	15,617	17,263
Investments in partnerships and LLCs:[7]					
Seed capital investments	—	—	—	3,440	3,440
Investments related to long-term incentive compensation plans	—	—	9,315	—	9,315
Other proprietary fund products	—	99	1,825	—	1,924
Derivative assets[7][8]	2,718	—	—	—	2,718
Other investments[7]	—	—	113	—	113
Total	$737,081	$ 116,435	$ 41,897	$ 52,772	$948,185
Liabilities:					
Contingent consideration liabilities[9]	$—	$—	$ (36,810)	$ —	$(36,810)
Derivative liabilities[8]	(4,522)	—	—	—	(4,522)
Total	$(4,522)	$—	$ (36,810)	$ —	$(41,332)

(1) Cash equivalents include highly liquid investments with original maturities of 90 days or less. Cash investments in actively traded money market funds are classified as Level 1. Cash investments in time deposits and other are measured at amortized cost, which approximates fair value because of the short time between purchase of the instrument and its expected realization, and are classified as Level 2.

(2) Trading investments of proprietary fund products and other trading investments consist of approximately 75% and 25% equity and debt securities, respectively, as of June 30, 2017, and approximately 79% and 21% equity and debt securities, respectively, as of March 31, 2017.

(3)

Includes $12,691 and $26,854 in noncontrolling interests associated with consolidated seed investment products as of June 30, 2017 and March 31, 2017, respectively.

(4) Primarily mutual funds where there is minimal market risk to the Company as any change in value is primarily offset by an adjustment to compensation expense and related deferred compensation liability.

(5) Certain of Legg Mason's equity method investments are investment companies that record underlying investments at fair value. Therefore, the fair value of these investments is measured using Legg Mason's share of the investee's underlying net income or loss, which is predominately representative of fair value adjustments in the investments held by the equity method investee. Other equity method investments not measured at fair value on a recurring basis are excluded from the tables above.

(6) Excludes $36,026 and $28,300 of seed capital as of June 30, 2017, and March 31, 2017, respectively, which is related to Legg Mason's investments in CIVs. See Note 13.

(7) Amounts are included in Other non-current assets in the Consolidated Balance Sheets for each of the periods presented.

(8) See Note 12.

(9) See Note 3 and Note 9.

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Proprietary fund products include seed capital investments made by Legg Mason to fund new investment strategies and products. Legg Mason had seed capital investments in proprietary fund products, which totaled $277,504 and $305,288, as of June 30, 2017 and March 31, 2017, respectively, which are substantially comprised of investments in 55 funds and 57 funds, respectively, that are individually greater than $1,000, and together comprise over 90% of the total seed capital investments at each period end.

As further discussed in Notes 2, 12, and 13, on June 6, 2017, Legg Mason entered into four total return swap arrangements with financial intermediaries with respect to one Legg Mason sponsored ETF for an aggregate notional amount of $20,253 which resulted in the investment in the ETF by each of the financial intermediaries. Under the terms of the total return swap arrangements, Legg Mason receives all the investment gains and losses on the underlying investments and therefore is required to consolidate the sponsored investment fund, which was designated as a CIV.

See Notes 2 for information regarding the determination of whether investments in proprietary fund products represent VIEs and consolidation.
The net realized and unrealized gain for investment securities classified as trading was $10,169, and $9,587 for the three months ended June 30, 2017 and 2016, respectively.
The net unrealized gains relating to trading investments still held as of the reporting dates were $2,068 and $4,139 for the three months ended June 30, 2017 and 2016, respectively.

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The changes in financial assets and (liabilities) measured at fair value using significant unobservable inputs (Level 3) for the three months ended June 30, 2017 and 2016, are presented in the tables below:

	Balance as of March 31, 2017	Purchases	Sales	Redemptions/ Settlements/ Other	Transfers	Realized and unrealized gains/(losses), net	Balance as of June 30, 2017
Assets:							
Equity method investments relating to long-term incentive compensation plans	$1,337	$ 11	$ —	$ (11)	$ —	$ 12	$1,349
Equity method investments in partnerships and LLCs:							
Seed capital investments	752	—	—	—	—	61	813
Seed capital investments in real estate funds	26,909	439	—	(619)	—	453	27,182
Other proprietary fund products	1,646	—	—	—	—	—	1,646
Investments in partnerships and LLCs:							
Investments related to long-term incentive compensation plans	9,315	52	—	—	—	—	9,367
Other proprietary fund products	1,825	—	—	(7)	—	—	1,818
Other investments	113	—	—	—	—	(1)	112
	$41,897	$ 502	$ —	$ (637)	$ —	$ 525	$42,287
Liabilities:							
Contingent consideration liabilities	$(36,810)	$ —	n/a	$ —	n/a	$ 16,113	$(20,697)

n/a - not applicable

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	Balance as of March 31, 2016	Purchases	Sales	Redemptions/Settlements/ Other	Transfers	Realized and unrealized gains/(losses), net	Balance as of June 30, 2016
Assets:							
Trading investments of seed capital investments in proprietary fund products	$3	$—	$ —	$ (3)	$ —	$ —	$—
Equity method investments relating to long-term incentive compensation plans	—	2,553	—	(22)	—	56	2,587
Equity method investments in partnerships and LLCs:							
Seed capital investments in real estate funds	—	24,263	—	(132)	—	382	24,513
Seed capital investments	627	—	—	—	—	17	644
Investments in partnerships and LLCs:							
Investments related to long-term incentive compensation plans	7,501	—	—	—	—	—	7,501
Other proprietary fund products	4,807	—	—	(1,000)	—	3	3,810
Other investments	83	—	—	—	—	7	90
	$13,021	$26,816	$ —	$ (1,157)	$ —	$ 465	$39,145
Liabilities:							
Contingent consideration liabilities	$(84,585)	$—	n/a	$ —	n/a	$ 21,662	$(62,923)

n/a - not applicable

Realized and unrealized gains and losses recorded for Level 3 investments are primarily included in Other non-operating income (expense), net, in the Consolidated Statements of Income. The change in unrealized gains for Level 3 investments and liabilities still held at the reporting date was $16,638, and $22,126 for the three months ended June 30, 2017, and 2016, respectively.

There were no significant transfers between Level 1 and Level 2 during the three months ended June 30, 2017 and 2016.

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As a practical expedient, Legg Mason relies on the NAV of certain investments as their fair value. The NAVs that have been provided by the investees have been derived from the fair values of the underlying investments as of the respective reporting dates. The following table summarizes, as of June 30, 2017 and March 31, 2017, the nature of these investments and any related liquidation restrictions or other factors which may impact the ultimate value realized:

		Fair Value Determined Using NAV		As of June 30, 2017	
Category of Investment	Investment Strategy	June 30, 2017	March 31, 2017	Unfunded Commitments	Remaining Term
Funds-of-hedge funds	Global macro, fixed income, long/short equity, natural resources, systematic, emerging market, European hedge	$17,962 (1)	$18,537	n/a	n/a
Hedge funds	Fixed income - developed market, event driven, fixed income - hedge, relative value arbitrage, European hedge	9,367	10,107	$20,000	n/a
Private equity funds	Long/short equity	15,907 (2)	17,612	7,071	Up to 12 years
Equity method	Long/short fixed income	6,895	6,292	n/a	n/a
Other	Various	173	224	n/a	Various (3)
Total		$50,304	$52,772	$27,071	

n/a - not applicable

(1) Liquidation restrictions: 1% daily redemption, 12% monthly redemption, 10% quarterly redemption, and 77% are not subject to redemption or are not currently redeemable.

(2) Liquidations are expected over the remaining term.

(3) Of this balance, 34% has a remaining term of less than one year and 66% has a remaining term of 15 years.

There are no current plans to sell any of these investments held as of June 30, 2017.

5. Fixed Assets

Fixed assets primarily consist of equipment, software and leasehold improvements. Equipment consists primarily of communications and technology hardware and furniture and fixtures. Capitalized software includes both purchased software and internally developed software. Fixed assets are reported at cost, net of accumulated depreciation and amortization. The following table reflects the components of fixed assets as of:

	June 30, 2017	March 31, 2017
Equipment	$162,315	$159,102
Software	309,590	304,943
Leasehold improvements	205,068	204,551
Total cost	676,973	668,596
Less: accumulated depreciation and amortization	(520,965)	(508,934)
Fixed assets, net	$156,008	$159,662

Depreciation and amortization expense related to fixed assets was $12,134 and $15,215 for the three months ended June 30, 2017, and 2016, respectively. The expense includes accelerated depreciation and amortization of $1,705 for the three months ended June 30, 2016, primarily related to space vacated in connection with the restructuring of Permal for the combination with EnTrust.

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6. Intangible Assets and Goodwill

The following table reflects the components of intangible assets as of:

	June 30, 2017	March 31, 2017
Amortizable intangible asset management contracts and other		
Cost	$374,938	$408,025
Accumulated amortization	(199,315)	(194,371)
Net	175,623	213,654
Indefinite–life intangible assets		
U.S. domestic mutual fund management contracts	2,106,351	2,106,351
Clarion Partners fund management contracts	505,200	505,200
EnTrustPermal fund management contracts	596,404	596,404
Other fund management contracts	547,917	542,908
Trade names	68,031	69,863
	3,823,903	3,820,726
Intangible assets, net	$3,999,526	$4,034,380

Certain of Legg Mason's intangible assets are denominated in currencies other than the U.S. dollar and balances related to these assets will fluctuate with changes in the related foreign currency exchange rates.

During the three months ended June 30, 2017, projected revenues related to the RARE Infrastructure separate account contacts amortizable asset declined due to losses of separate account AUM and other factors, including the withdrawal of approximately $1,500,000 by an institutional client in June 2017. Based on revised attrition estimates, the remaining useful life of the acquired contracts was decreased from eight years to five years at June 30, 2017. As a result of the decline in projected revenues and the revised estimate of the remaining useful life, the amortized carrying value was determined to exceed its fair value and an impairment charge of $32,000 was recorded during the three months ended June 30, 2017. Management estimated the fair value of this asset based upon a discounted cash flow analysis using unobservable market inputs, which are Level 3 measurements. The significant assumptions used in the cash flow analysis included projected AUM growth rates of 7%, attrition rates of 20%, and a discount rate of 16.5%.

In addition, as a result of the AUM losses and other factors, Legg Mason tested the RARE Infrastructure indefinite-life fund management contracts intangible asset and trade name indefinite-life intangible asset for impairment during the three months ended June 30, 2017. The assessed fair value of the RARE Infrastructure indefinite-life fund management contracts intangible asset exceeded the carrying value by 7% and therefore was not impaired. The carrying value of the trade name exceeded its fair value, which resulted in an impairment charge of $2,000. Management estimated the fair value of the RARE Infrastructure trade name based upon a relief from royalty approach and a discounted cash flow method using unobservable market data inputs, which are Level 3 measurements. The significant assumptions used in the cash flow analysis included projected annual revenue growth rates of 5% to 18% (average: 8%), a royalty rate of 1.0%, and a discount rate of 16.5%.

Projected revenue, AUM growth rates and client attrition are most dependent on client AUM flows, changes in market conditions, and product investment performance. Discount rates are also influenced by changes in market conditions, as well as interest rates and other factors. Decreases in projected revenue or AUM growth rates and/or increases in the discount rates could result in lower fair value measurements and potential additional impairments in these intangible assets.

Based on qualitative assessments, Legg Mason determined as of June 30, 2017, that no further quantitative impairment testing was required. Also, there were no impairments to amortizable management contract intangible

assets as of June 30, 2017.

In Legg Mason's annual impairment test as of December 31, 2016, the assessed fair value of the Permal trade name indefinite-life asset declined below its carrying value, and accordingly was impaired during the year ended March 31, 2017. Should market performance, flows, and related AUM levels decrease in the near term such that cash flow projections deviate from current projections, it is reasonably possible that this asset could be deemed to be impaired by a material amount.

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The assessed fair value of the indefinite-life domestic mutual funds contracts asset related to the Citigroup Asset Management acquisition exceeds the carrying value by a material amount.

As of June 30, 2017, amortizable intangible asset management contracts and other are being amortized over a weighted-average remaining life of 7.6 years.

Estimated amortization expense for each of the next five fiscal years and thereafter is as follows:

Remaining fiscal 2018	$18,196
2019	24,678
2020	24,213
2021	23,797
2022	23,559
Thereafter	61,180
Total	$175,623

The change in the carrying value of goodwill is summarized below:

	Gross Book Value	Accumulated Impairment	Net Book Value
Balance as of March 31, 2017	3,086,789	(1,161,900)	1,924,889
Impact of excess tax basis amortization	(5,204)	—	(5,204)
Changes in foreign exchange rates and other	4,526	—	4,526
Balance as of June 30, 2017	$3,086,111	$(1,161,900)	$1,924,211

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings
On December 29, 2015, Legg Mason entered into an unsecured credit agreement (as amended from time to time, the "Credit Agreement") which provided for a $1,000,000 revolving credit facility. The Credit Agreement was amended on March 31, 2017 to reduce the amount available for borrowing under the revolving credit facility to $500,000. On June 2, 2017, the Credit Agreement was further amended to include Legg Mason, Inc. (the parent entity) among the entities permitted to incur liens to secure obligations, including those related to cash collateral provisions for hedging agreements, in an aggregate amount not to exceed $200,000 at any one time. Prior to this amendment, only certain subsidiaries of Legg Mason were permitted to incur such liens and the cash collateral provided by Legg Mason, Inc. (the parent entity) in connection with certain of its hedging agreements was considered a lien on assets for purposes of the lien covenant. As a result, Legg Mason was not in compliance with the terms of the Credit Agreement at all times. The amendment provides for a waiver of any defaults under the unsecured credit agreement that may have arisen prior to the date of the amendment resulting from the provision of such cash collateral.

Legg Mason had no outstanding borrowings under the revolving credit facility as of June 30, 2017 or March 31, 2017.

Interest Rate Swap - Revolving Credit Facility
On April 29, 2016, Legg Mason entered into a forward starting, amortizing interest rate swap agreement with a financial intermediary, which was designated as a cash flow hedge. The interest rate swap was used to convert then outstanding borrowings under the revolving credit facility from floating rate to fixed rate debt. Under the terms of the interest rate swap agreement, Legg Mason paid a fixed interest rate of 2.3% on a notional amount of $500,000. The swap had a 4.67-year term, with scheduled reductions in notional amount and was to expire on December 29, 2020. The fair value of the contract at June 30, 2016, was a liability of $4,369, with a corresponding loss of $2,683 (net of deferred taxes of $1,686) recorded in Accumulated other comprehensive loss, net, in the Consolidated Balance Sheet. Prior to its termination in August 2016 in connection with the repayment of the outstanding borrowings under the

revolving credit facility, the swap settled monthly and during the three months ended June 30, 2016, $527 was reclassified from Accumulated other comprehensive loss, net, to Interest expense upon settlement of the swap. There was no material ineffectiveness related to this cash flow hedge at June 30, 2016.

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Long-term debt

Long-term debt, net, consists of the following:

	June 30, 2017					March 31, 2017
	Carrying Value	Fair Value Hedge Adjustment	Unamortized Discount (Premium)	Unamortized Debt Issuance Costs	Maturity Amount	Carrying Value
2.7% Senior Notes due July 2019	$252,645	$ (3,609)	$ 223	$ 741	$250,000	$252,980
3.95% Senior Notes due July 2024	248,325	—	320	1,355	250,000	248,265
4.75% Senior Notes due March 2026	446,901	—	—	3,099	450,000	446,812
5.625% Senior Notes due January 2044	547,880	—	(3,243)	5,363	550,000	547,861
6.375% Junior Notes due March 2056	242,105	—	—	7,895	250,000	242,054
5.45% Junior Notes due September 2056	483,997	—	—	16,003	500,000	483,895
Total	$2,221,853	$ (3,609)	$ (2,700)	$ 34,456	$2,250,000	$2,221,867

Interest Rate Swap - 2.7% Senior Notes due July 2019

On June 23, 2014, Legg Mason entered into an interest rate swap contract with a financial intermediary with a notional amount of $250,000, which was designated as a fair value hedge. The interest rate swap was used to effectively convert the 2.7% Senior Notes due July 2019 from fixed rate debt to floating rate debt and had identical terms as the underlying debt being hedged. The related hedging gains and losses offset one another and resulted in no net income or loss impact. The swap had a five-year term, and was scheduled to mature on July 15, 2019. On April 21, 2016, the fair value hedge swap was terminated for a cash receipt of $6,500, and the related fair value hedge adjustment is being amortized as Interest expense over the remaining life of the debt. During each of the three months ended June 30, 2017 and 2016, $451 was amortized and recorded as Interest expense in the Consolidated Statements of Income. Until the swap was terminated on April 21, 2016, the original terms and conditions of the hedged instruments were unchanged and the swap was an effective fair value hedge.

As of June 30, 2017, $250,000 of Legg Mason's long-term debt matures in fiscal 2020, and $2,000,000 matures after fiscal 2022.

At June 30, 2017, the estimated fair value of Long-term debt was approximately $2,333,658. The fair value of debt was estimated using publicly quoted market prices and was classified as Level 2 in the fair value hierarchy.

8. Stock-Based Compensation

See Note 1 regarding updated stock-based compensation accounting guidance effective April 1, 2017.

Legg Mason's stock-based compensation includes stock options, an employee stock purchase plan, market-based performance shares payable in common stock, restricted stock awards and units, affiliate management equity plans and deferred compensation payable in stock. Shares available for issuance under the equity incentive stock plan as of June 30, 2017, were 1,762. Legg Mason's stockholders have approved, effective August 1, 2017, a new equity incentive plan, under which a total of 6,500 shares, plus any shares remaining under the prior plan, are available for issuance. Options under Legg Mason’s employee stock plans have been granted at prices not less than 100% of the fair market value. Options are generally exercisable in equal increments over four or five years and expire within eight to 10 years from the date of grant.

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As further discussed below, the components of Legg Mason's total stock-based compensation expense for the three months ended June 30, 2017 and 2016, were as follows:

	Three Months Ended June 30,	
	2017	2016
Stock options	$2,225	$2,242
Restricted stock and restricted stock units	16,579	14,573
Employee stock purchase plan	297	301
Affiliate management equity plans	776	19,499
Performance share units	1,185	850
Employee stock trust	6	6
Total stock-based compensation expense	$21,068	$37,471

Stock Options

Stock option transactions under Legg Mason's equity incentive plans during the three months ended June 30, 2017 and 2016, are summarized below:

	Three Months Ended June 30,			
	2017		2016	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Options outstanding at March 31	4,593	38.15	4,506	$ 38.48
Granted	421	37.64	753	31.31
Exercised	(256)	28.99	(56)	29.04
Canceled/forfeited	(44)	43.73	(42)	43.93
Options outstanding at June 30	4,714	$ 38.55	5,161	$ 37.49

At June 30, 2017, options were exercisable for 3,141 shares with a weighted-average exercise price of $37.32 and a weighted average remaining contractual life of 4.2 years. Unamortized compensation cost related to unvested options for 1,573 shares at June 30, 2017, was $12,722, which is expected to be recognized over a weighted-average period of 1.6 years.

The weighted-average fair value of service-based stock options granted during the three months ended June 30, 2017 and 2016, using the Black-Scholes option pricing model was $8.33 and $7.78, per share, respectively.

The following weighted-average assumptions were used in the model for grants in the three months ended June 30, 2017 and 2016:

	Three Months Ended June 30,	
	2017	2016
Expected dividend yield	1.70 %	1.45 %
Risk-free interest rate	1.89 %	1.25 %
Expected volatility	26.79%	30.95%
Expected life (in years)	5.09	5.02

Legg Mason uses an equally weighted combination of both implied and historical volatility to measure expected volatility for calculating Black-Scholes option values.

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Restricted Stock

Restricted stock and restricted stock unit transactions during the three months ended June 30, 2017 and 2016, are summarized below:

	Three Months Ended June 30,			
	2017		2016	
	Number of Shares	Weighted-Average Grant Date Value	Number of Shares	Weighted-Average Grant Date Value
Unvested shares at March 31	3,321	38.92	3,058	$ 43.34
Granted	1,441	37.64	1,642	31.24
Vested	(1,281)	39.41	(1,164)	38.88
Canceled/forfeited	(32)	38.89	(63)	42.11
Unvested shares at June 30	3,449	$ 38.20	3,473	$ 39.11

Unamortized compensation cost related to unvested restricted stock and restricted stock unit awards at June 30, 2017, of $111,146 is expected to be recognized over a weighted-average period of 1.9 years.

Affiliate Management Equity Plans

In connection with the acquisition of Clarion Partners in April 2016, as further discussed in Note 2, Legg Mason implemented a management equity plan for the management team of Clarion Partners that entitles certain of its key employees to participate in 15% of the future growth, if any, of the Clarion Partners enterprise value (subject to appropriate discounts) subsequent to the date of the grant. The initial grant under the plan vested immediately and the related grant-date fair value of $15,200, determined by independent valuation, was recognized as Compensation and benefits expense in the Consolidated Statement of Income (Loss) and reflected in the Consolidated Balance Sheet as Redeemable noncontrolling interest during the three months ended June 30, 2016. As of June 30, 2017, the estimated aggregate redemption amount of units under the plan, as if they were currently redeemable, was $18,700.

Effective March 1, 2016, Legg Mason executed agreements with the management of its existing wholly-owned subsidiary, Royce, regarding employment arrangements with Royce management, revised revenue sharing, and the implementation of a management equity plan for Royce's key employees. Under the management equity plan, minority equity interests equivalent to 19% in the Royce entity have been issued to its management team. These interests allow the holders to receive quarterly distributions of a portion of Royce's pre-tax income in amounts equal to the percentage of ownership represented by the equity they hold, subject to payment of Legg Mason's revenue share and reasonable expenses. As of June 30, 2017, the estimated aggregate redemption amount of units under the plan, as if they were currently redeemable, was $28,241.

On March 31, 2014, Legg Mason implemented a management equity plan and granted units to key employees of its subsidiary ClearBridge Investments, LLC ("ClearBridge") that entitle them to participate in 15% of the future growth, if any, of the ClearBridge enterprise value (subject to appropriate discounts) subsequent to the grant date. Independent valuation determined the aggregate cost of the award to be approximately $16,000, which will be recognized as Compensation and benefits expense in the Consolidated Statements of Income over the related vesting periods through March 2019. Total compensation expense related to the ClearBridge affiliate management equity plan was $776 and $818 for the three months ended June 30, 2017 and 2016, respectively. This arrangement provides that one-half of the cost will be absorbed by the ClearBridge incentive pool. As of June 30, 2017, the estimated aggregate redemption amount of vested units under the ClearBridge plan, as if they were currently redeemable, was approximately $25,800.

On June 28, 2013, Legg Mason implemented a management equity plan with key employees of Permal. Independent valuation determined the aggregate cost of the awards to be approximately $9,000, which was being recognized as Compensation and benefits expense in the Consolidated Statements of Income over the related vesting period through

December 2017. In April 2016, in conjunction with the Permal restructuring in preparation for the combination with EnTrust, the Permal management equity plan was liquidated with a payment of $7,150 to its participants, and the remaining $3,481 unamortized cost was expensed during the three months ended June 30, 2016.

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Other

As of June 30, 2017 and 2016, non-employee directors held 67 and 54 restricted stock units, respectively, which vest on the grant date and are, therefore, not included in the unvested shares of restricted stock and restricted stock units in the table above.

As discussed in Note 3, upon the acquisition of Clarion Partners in April 2016, Legg Mason granted certain key employees of Clarion Partners a total of 716 performance-based Legg Mason restricted share units, which are not included in the unvested shares of restricted stock and restricted stock units in the table above, with an aggregate fair value of $11,121, which was included in the purchase price, that vest upon Clarion Partners achieving a certain level of EBITDA, as defined in the purchase agreement, within a designated period after the closing of the acquisition.

In May 2017 and 2016, Legg Mason granted certain executive officers a total of 111 and 182 performance share units, respectively, as part of their fiscal 2017 and 2016 incentive award with an aggregate value of $3,503 and $3,528, respectively. The vesting of performance share units granted in May 2017 and 2016, and the number of shares payable at vesting are determined based on Legg Mason's relative total stockholder return over a three-year period ending March 31, 2020 and 2019, respectively. The grant date fair value per unit for the May 2017 and 2016 performance share units of $31.42 and $19.36, respectively, was estimated as of the grant date using a Monte Carlo pricing model with the following assumptions:

	2017	2016
Expected dividend yield	2.96 %	2.87 %
Risk-free interest rate	1.47 %	0.89 %
Expected volatility	27.73 %	26.01 %

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9. Commitments and Contingencies

Legg Mason leases office facilities and equipment under non-cancelable operating leases, and also has multi-year agreements for certain services. These leases and service agreements expire on varying dates through fiscal 2028. Certain leases provide for renewal options and contain escalation clauses providing for increased rentals based upon maintenance, utility and tax increases.

As of June 30, 2017, the minimum annual aggregate rentals under operating leases and service agreements are as follows:

Remaining fiscal 2018	$96,134
2019	112,339
2020	99,336
2021	90,007
2022	88,201
Thereafter	187,773
Total[1]	$673,790

(1) Includes $611,637 in real estate and equipment leases and $62,153 in service and maintenance agreements.

The minimum rental commitments shown above have not been reduced by $125,444 for minimum sublease rentals to be received in the future under non-cancelable subleases, of which approximately 35% is due from one counterparty. The lease reserve liability, which is included in the table below, for space subleased as of June 30, 2017 and March 31, 2017, was $31,605 and $28,821, respectively. If a sub-tenant defaults on a sublease, Legg Mason may incur operating charges to adjust the existing lease reserve liability to reflect expected future sublease rentals at reduced amounts, dependent on the commercial real estate market at such time.

The minimum rental commitments shown above also include $8,015 for commitments related to space that has been vacated, but for which subleases are being pursued. The related lease reserve liability, also included in the table below, was $5,126 and $10,867 as of June 30, 2017 and March 31, 2017, respectively, and remains subject to adjustment based on circumstances in the real estate markets that may require a change in assumptions or the actual terms of a sublease that is ultimately secured. The lease reserve liability takes into consideration various assumptions, including the expected amount of time it will take to secure a sublease agreement and prevailing rental rates in the applicable real estate markets.

During fiscal 2016 and fiscal 2017, certain office space was permanently vacated in connection with the combination of EnTrust and Permal. During fiscal 2017, the lease related to a portion of this space was terminated, resulting in reductions in the lease reserve liability totaling $4,495. Also during fiscal 2017, a sublease was executed for headquarters space that had been vacated during fiscal 2016, resulting in a $2,700 reduction in the lease reserve liability for terms more favorable than estimated. This activity is reflected in the lease reserve liability in the table below.

The lease reserve liability for subleased space and vacated space for which subleases are being pursued is included in Other current liabilities and Other non-current liabilities in the Consolidated Balance Sheets. The table below presents a summary of the changes in the lease reserve liability:

Balance as of March 31, 2016	$52,240
Accrued charges for vacated and subleased space [1] [2]	9,454
Payments, net	(16,531)
Adjustments and other	(5,475)
Balance as of March 31, 2017	39,688
Payments, net	(3,273)

Adjustments and other	316
Balance as of June 30, 2017	$36,731

(1) Included in Occupancy expense in the Consolidated Statements of Income
(2) Includes $9,069 related to the restructuring of Permal for the combination with EnTrust

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As of June 30, 2017, Legg Mason had commitments to invest $35,863 in limited partnerships that make private investments. These commitments are expected to be outstanding, or funded as required, through the end of their respective investment periods ranging through fiscal 2029. Also, in connection with the acquisition of Clarion Partners, Legg Mason committed to provide $100,000 of seed capital to Clarion Partners products after the second anniversary of the transaction closing. Legg Mason also committed to contribute up to $5,000 of additional working capital to Financial Guard, to be paid over the two-year period following the acquisition, of which $2,500 has been paid as of June 30, 2017.

As of June 30, 2017, Legg Mason had various commitments to pay contingent consideration relating to business acquisitions. The following table presents a summary of the maximum remaining contingent consideration and changes in the contingent consideration liability for each of Legg Mason's recent acquisitions. See Note 3 for additional details regarding each significant acquisition.

	RARE Infrastructure	Martin Currie	QS Investors	Other[2]	Total
Acquisition Date	October 21, 2015	October 1, 2014	May 30, 2014	Various	
Maximum Remaining Contingent Consideration[1]	$ 81,426	$423,075	$23,400	$5,506	$533,407
Contingent Consideration Liability					
Balance as of March 31, 2016	$ 27,145	$41,222	$13,749	$2,469	$84,585
Initial purchase accounting accrual	—	—	—	2,000	2,000
Payment	—	—	(6,587)	—	(6,587)
Fair value adjustments	(10,000)	(25,000)	(2,500)	(2,000)	(39,500)
Foreign exchange and accretion	299	(4,204)	179	38	(3,688)
Balance as of March 31, 2017	17,444	12,018	4,841	2,507	36,810
Fair value adjustments	(15,250)	—	(1,300)	—	(16,550)
Foreign exchange and accretion	(66)	462	42	(1)	437
Balance as of June 30, 2017	$ 2,128	$12,480	$3,583	$2,506	$20,697
Balance Sheet Classification					
Current Contingent consideration	$ —	$12,480	$—	$2,506	$14,986
Non-current Contingent consideration	2,128	—	3,583	—	5,711
Balance as of June 30, 2017	$ 2,128	$12,480	$3,583	$2,506	$20,697

(1) Using the applicable exchange rate as of June 30, 2017, for amounts denominated in currencies other than the U.S. dollar.

(2) Includes amounts related to the acquisition of Financial Guard on August 17, 2016 and PK Investments on December 31, 2015.

In the normal course of business, Legg Mason enters into contracts that contain a variety of representations and warranties and that provide general indemnifications, which are not considered financial guarantees by relevant accounting guidance. Legg Mason's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against Legg Mason that have not yet occurred.

Legg Mason has been the subject of customer complaints and has also been named as a defendant in various legal actions arising primarily from asset management, securities brokerage, and investment banking activities, including certain class actions, which primarily allege violations of securities laws and seek unspecified damages, which could be substantial. In the normal course of its business, Legg Mason has also received subpoenas and is currently involved in governmental and industry self-regulatory agency inquiries, investigations and, from time to time, proceedings involving asset management activities. In accordance with guidance for accounting for contingencies, Legg Mason has established provisions for estimated losses from pending complaints, legal actions, investigations and proceedings when it is probable that a loss has been incurred and a reasonable estimate of loss can be made.

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Legg Mason cannot estimate the reasonably possible loss or range of loss associated with matters of litigation and other proceedings, including those described above as customer complaints, legal actions, inquiries, proceedings and investigations. The inability to provide a reasonably possible amount or range of losses is not because there is uncertainty as to the ultimate outcome of a matter, but because liability and damage issues have not developed to the point where Legg Mason can conclude that there is both a reasonable possibility of a loss and a meaningful amount or range of possible losses. There are numerous aspects to customer complaints, legal actions, inquiries, proceedings and investigations that prevent Legg Mason from estimating a related amount or range of reasonably possible losses. These aspects include, among other things, the nature of the matters; that significant relevant facts are not known, are uncertain or are in dispute; and that damages sought are not specified, are uncertain, unsupportable or unexplained. In addition, for legal actions, discovery may not yet have started, may not be complete or may not be conclusive, and meaningful settlement discussions may not have occurred. Further, for regulatory matters, investigations may run their course without any clear indication of wrongdoing or fault until their conclusion.

In management's opinion, an adequate accrual has been made as of June 30, 2017, to provide for any probable losses that may arise from matters for which the Company could reasonably estimate an amount. Legg Mason's financial condition, results of operations and cash flows could be materially affected during a period in which a matter is ultimately resolved. In addition, the ultimate costs of litigation-related charges can vary significantly from period-to-period, depending on factors such as market conditions, the size and volume of customer complaints and claims, including class action suits, and recoveries from indemnification, contribution, insurance reimbursement, or reductions in compensation under revenue share arrangements.

As further described in Note 3, Legg Mason may be obligated to settle noncontrolling interests related to certain affiliates. As of June 30, 2017, affiliate noncontrolling interests, excluding amounts related to management equity plans, aggregated $585,995. In addition, as of June 30, 2017, the estimated redemption value for units under affiliate management equity plans aggregated $72,741. See Notes 8 and 11 for additional information regarding affiliate management equity plans and noncontrolling interests, respectively.

10. Earnings Per Share

Basic earnings per share attributable to Legg Mason, Inc. shareholders ("EPS") is calculated by dividing Net Income Attributable to Legg Mason, Inc. (adjusted by removing earnings allocated to participating securities) by the weighted-average number of shares outstanding, which excludes participating securities. Legg Mason issues to employees restricted stock and restricted stock units that are deemed to be participating securities prior to vesting, because the related unvested restricted shares/units entitle their holder to nonforfeitable dividend rights. In this circumstance, accounting guidance requires a “two-class method” for EPS calculations that excludes earnings (potentially both distributed and undistributed) allocated to participating securities and does not allocate losses to participating securities.

Diluted EPS is similar to basic EPS, but the effect of potential common shares is included in the calculation unless the potential common shares are antidilutive.

During the three months ended June 30, 2017 and 2016, Legg Mason purchased and retired 2,369 and 3,475 shares of its common stock, respectively, for $89,649 and $111,673, respectively, through open market purchases, and retired 337 and 357 shares of its common stock, respectively, for $12,811 and $11,661, respectively, under net share settlements of annual deferred compensation award vesting. Total retired shares reduced weighted-average shares outstanding by 1,329 and 2,015 shares for the three months ended June 30, 2017 and 2016, respectively.

The par value of the shares repurchased is charged to common stock, with the excess of the purchase price over par first charged against additional paid-in capital, with the remaining balance, if any, charged against retained earnings.

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The following table presents the computations of basic and diluted EPS:

	Three Months Ended June 30,	
	2017	2016
Basic weighted-average shares outstanding for EPS	94,869	104,465
Potential common shares:		
Dilutive employee stock options	428	212
Diluted weighted-average shares outstanding for EPS	95,297	104,677
Net Income Attributable to Legg Mason, Inc.	$50,920	$33,452
Less: Earnings (distributed and undistributed) allocated to participating securities	1,736	1,051
Net Income (Distributed and Undistributed) Allocated to Shareholders (Excluding Participating Securities)	$49,184	$32,401
Net Income per share Attributable to Legg Mason, Inc. Shareholders		
Basic	$0.52	$0.31
Diluted	$0.52	$0.31

The weighted-average shares for the three months ended June 30, 2017 and 2016, exclude weighted-average unvested restricted shares deemed to be participating securities of 3,192 and 3,134, respectively.

The diluted EPS calculations for the three months ended June 30, 2017 and 2016, exclude any potential common shares issuable under the 14,205 warrants issued in connection with the repurchase of Convertible Notes in May 2012 because the market price of Legg Mason common stock did not exceed the exercise price, and therefore, the warrants would be antidilutive.
Options to purchase 2,284 and 3,493 shares for the three months ended June 30, 2017 and 2016, respectively, were not included in the computation of diluted EPS because the presumed proceeds from exercising such options, including the related income tax benefits, exceed the average price of the common shares for the period and, therefore, the options are deemed antidilutive.

Further, market- and performance-based awards are excluded from potential dilution until the designated market or performance condition is met. Unvested restricted shares for the three months ended June 30, 2017 and 2016, were antidilutive and, therefore, do not further impact diluted EPS.

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11. Noncontrolling Interests

Net income attributable to noncontrolling interests for the three months ended June 30, included the following amounts:

	Three Months Ended June 30,	
	2017	2016
Net income attributable to redeemable noncontrolling interests	$10,356	$10,037
Net income attributable to nonredeemable noncontrolling interests	2,261	1,851
Total	$12,617	$11,888

Total redeemable and nonredeemable noncontrolling interests for the three months ended June 30, 2017 and 2016, included the following amounts:

	Redeemable noncontrolling interests				
	Consolidated investment vehicles[1] and other	Affiliate Noncontrolling Interests	Management equity plans	Total	Nonredeemable noncontrolling interests[2]
Balance as of March 31, 2017	$58,470	$591,254	$ 28,048	$677,772	$ 27,798
Net income attributable to noncontrolling interests	648	9,708	—	10,356	2,261
Net subscriptions (redemptions) and other	10,266	—	—	10,266	—
Distributions	—	(15,913)	—	(15,913)	(1,818)
Foreign exchange	—	333	—	333	—
Vesting/change in estimated redemption value	—	613	776	1,389	—
Balance as of June 30, 2017	$69,384	$585,995	$ 28,824	$684,203	$ 28,241

	Redeemable noncontrolling interests				
	Consolidated investment vehicles[1] and other	Affiliate Noncontrolling Interests	Management equity plans	Total	Nonredeemable noncontrolling interests[2]
Balance as of March 31, 2016	$94,136	$68,922	$ 12,727	$175,785	$ 22,202
Net income attributable to noncontrolling interests	2,480	7,557	—	10,037	1,851
Net subscriptions (redemptions) and other[3]	18,767	2,604	—	21,371	—
Distributions	—	(1,504)	—	(1,504)	(802)
Grants (settlements), net	—	—	6,120	6,120	—
Business acquisition	—	508,500	—	508,500	—
Foreign exchange	—	(1,998)	—	(1,998)	—
Vesting/change in estimated redemption value	—	—	4,251	4,251	—
Balance as of June 30, 2016	$115,383	$584,081	$ 23,098	$722,562	$ 23,251

(1) Principally related to VIE and seeded investment products.
(2) Related to Royce management equity plan.
(3) Includes the impact related to the adoption of updated consolidation accounting guidance.

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Redeemable noncontrolling interests by affiliate (exclusive of management equity plans) for the three months ended June 30, 2017 and 2016, included the following amounts:

	Redeemable noncontrolling interests				
	EnTrust-Permal	Clarion Partners	RARE Infrastructure	Other	Total
Balance as of March 31, 2017	$404,852	$113,173	$ 68,747	$4,482	$591,254
Net income attributable to noncontrolling interests	4,595	3,233	1,823	57	9,708
Distributions	(5,884)	(7,806)	(2,098)	(125)	(15,913)
Foreign exchange	—	—	333	—	333
Change in estimated redemption value	—	613	—	—	613
Balance as of June 30, 2017	$403,563	$109,213	$ 68,805	$4,414	$585,995

	Redeemable noncontrolling interests				
	EnTrust-Permal	Clarion Partners	RARE Infrastructure	Other	Total
Balance as of March 31, 2016	$—	$—	$ 67,155	$1,767	$68,922
Net income attributable to noncontrolling interests	4,159	2,244	1,098	56	7,557
Subscriptions	—	—	—	2,604	2,604
Distributions	—	—	(1,317)	(187)	(1,504)
Business acquisitions	403,200	105,300	—	—	508,500
Foreign exchange	—	—	(1,998)	—	(1,998)
Balance as of June 30, 2016	$407,359	$107,544	$ 64,938	$4,240	$584,081

12. Derivatives and Hedging

Legg Mason uses currency forwards to economically hedge the risk of movements in exchange rates, primarily between the U.S. dollar, British pound, Australian dollar, Singapore dollar, Japanese yen, and euro. All derivative transactions for which Legg Mason has certain legally enforceable rights of setoff are governed by International Swaps and Derivative Association ("ISDA") Master Agreements. For these derivative transactions, Legg Mason has one ISDA Master Agreement with each of the significant counterparties, which covers transactions with that counterparty. Each of the respective ISDA agreements provides for settlement netting and close-out netting between Legg Mason and that counterparty, which are legally enforceable rights to setoff. Other assets recorded in the Consolidated Balance Sheets as of June 30, 2017 and March 31, 2017, were $3,083 and $2,718, respectively. Other liabilities recorded in the Consolidated Balance Sheets as of June 30, 2017 and March 31, 2017, were $274 and $4,522, respectively.

Legg Mason also uses market hedges on certain seed capital investments by entering into futures contracts to sell index funds that benchmark the hedged seed capital investments.

On June 6, 2017, Legg Mason entered into four total return swap arrangements with financial intermediaries with respect to a Legg Mason sponsored ETF, which resulted in an investment by each of the financial intermediaries in the ETF. Under the terms of each of the total return swap arrangements, LeggMason receives the related investment gains and losses on the underlying shares of the ETF, and also pays a floating spread on the value of the underlying shares equal to the three-month LIBOR plus 1.35%. The total return swap arrangements allow either party to terminate all or part of the arrangement, provide for automatic termination upon occurrence of certain events, and expire in June 2018. Each financial intermediary counterparty may hedge its total return swap position through an investment in the ETF and collectively, the four financial intermediaries have purchased interests in the Legg Mason ETF for a total amount of $20,253. In connection with the arrangements, Legg Mason executed a futures contract with a notional amount of $19,931 to partially hedge the gains and losses recognized on the total return swaps.

As further discussed in Note 7, in April 2016, Legg Mason executed a 4.67-year, amortizing interest rate swap, which was terminated in August 2016. Also, in April 2016, Legg Mason terminated another previously existing interest rate swap.

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With the exception of the two interest rate swap contracts discussed in Note 7, Legg Mason has not designated any derivatives as hedging instruments for accounting purposes during the periods ended June 30, 2017, March 31, 2017, or June 30, 2016. In addition to the total return swap arrangements and the related futures contract discussed above, as of June 30, 2017, Legg Mason had open currency forward contracts with aggregate notional amounts totaling $219,118, and open futures contracts relating to seed capital investments with aggregate notional values totaling $129,496. With the exception of the total return swap arrangements and related futures contract, these amounts are representative of the level of non-hedge designation derivative activity throughout the three months ended June 30, 2017 and 2016. As of June 30, 2017, the weighted-average remaining contract terms for currency forward contracts and futures contracts relating to seed capital investments were eight and three months, respectively.

The following table presents the derivative assets and related offsets, if any, as of June 30, 2017:

	Gross amounts of recognized assets	Gross amounts offset in the Balance Sheet	Net amount of derivative assets presented in the Balance Sheet	Gross amounts not offset in the Balance Sheet		Net amount as of June 30, 2017
				Financial instruments	Cash collateral	
Derivative instruments not designated as hedging instruments						
Currency forward contracts	$ 3,757	$ (1,795)	$ 1,962	$—	$ —	$ 1,962
Futures contracts relating to:						
Seed capital investments	—	—	—	853	3,834	4,687
Total return swaps	—	—	—	268	574	842
Total futures contracts	—	—	—	1,121	4,408	5,529
Total derivative instruments not designated as hedging instruments	$ 3,757	$ (1,795)	$ 1,962	$ 1,121	$ 4,408	$ 7,491

The following table presents the derivative liabilities and related offsets, if any, as of June 30, 2017:

	Gross amounts of recognized liabilities	Gross amounts offset in the Balance Sheet	Net amount of derivative liabilities presented in the Balance Sheet	Gross amounts not offset in the Balance Sheet		Net amount as of June 30, 2017
				Financial instruments	Cash collateral	
Derivative instruments not designated as hedging instruments						
Currency forward contracts	$ (187)	$ 20	$ (167)	$—	$ —	$ (167)
Total return swaps	—	—	—	(107)	1,275	1,168

Total derivative instruments not designated as hedging instruments	$ (187)	$ 20	$ (167)	$(107)	$ 1,275	$1,001

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The following table presents the derivative assets and related offsets, if any, as of March 31, 2017:

	Gross amounts of recognized assets	Gross amounts offset in the Balance Sheet	Net amount of derivative assets presented in the Balance Sheet	Gross amounts not offset in the Balance Sheet		Net amount as of March 31, 2017
				Financial instruments	Cash collateral	
Derivative instruments not designated as hedging instruments						
Currency forward contracts	$ 3,470	$ (928)	$ 2,542	$—	$ —	$ 2,542
Futures contracts relating to seed capital investments	—	—	—	176	2,878	3,054
Total derivative instruments not designated as hedging instruments	$ 3,470	$ (928)	$ 2,542	$ 176	$ 2,878	$ 5,596

The following table presents the derivative liabilities and related offsets, if any, as of March 31, 2017:

	Gross amounts of recognized liabilities	Gross amounts offset in the Balance Sheet	Net amount of derivative liabilities presented in the Balance Sheet	Gross amounts not offset in the Balance Sheet		Net amount as of March 31, 2017
				Financial instruments	Cash collateral	
Derivative instruments not designated as hedging instruments						
Currency forward contracts	$ (3,641)	$ 751	$ (2,890)	$—	$ —	$ (2,890)
Futures contracts relating to seed capital investments	—	—	—	(1,632)	4,155	2,523
Total derivative instruments not designated as hedging instruments	$ (3,641)	$ 751	$ (2,890)	$ (1,632)	$ 4,155	$ (367)

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The following table presents gains (losses) recognized in the Consolidated Statements of Income on derivative instruments. As described above, the currency forward contracts and futures and forward contracts for seed capital investments included below are economic hedges of interest rate and market risk of certain operating and investing activities of Legg Mason, including foreign exchange risk on acquisition contingent consideration. Gains and losses on these derivative instruments substantially offset gains and losses of the economically hedged items.

		Three Months Ended June 30,			
		2017		2016	
	Income Statement Classification	Gains	Losses	Gains	Losses
Derivatives not designated as hedging instruments					
Currency forward contracts relating to:					
Operating activities	Other expense	$4,712	$(2,572)	$10,530	$(7,983)
Seed capital investments	Other non-operating income (expense)	411	(1,049)	1,334	(856)
Futures contracts relating to:					
Seed capital investments	Other non-operating income (expense)	848	(5,500)	1,751	(3,391)
Total return swaps	Other non-operating income (expense)	267	—	—	—
Total return swap	Other non-operating income (expense)	—	(107)	—	—
Total gain (loss) from derivatives not designated as hedging instruments		6,238	(9,228)	13,615	(12,230)
Derivative designated as a cash flow hedge (See Note 7)					
Interest rate swap	Interest expense	—	—	—	(527)
Total		$6,238	$(9,228)	$13,615	$(12,757)

13. Variable Interest Entities and Consolidated Investment Vehicles

In accordance with financial accounting standards, Legg Mason consolidates certain sponsored investment products, some of which are designated as CIVs. As further discussed in Note 2, Legg Mason concluded it was the primary beneficiary of three foreign mutual fund VIEs as of each June 30, 2017 and March 31, 2017, and of nine foreign mutual fund VIEs as of June 30, 2016, which were consolidated and designated as CIVs, because it held significant financial interests in these funds. Legg Mason also concluded it was the primary beneficiary of two sponsored investment fund VIEs, and one employee-owned fund that it sponsors, as of each June 30, 2017, March 31, 2017, and June 30, 2016, which were also consolidated and designated as CIVs. In addition, Legg Mason determined it was the primary beneficiary of a sponsored ETF as a result of total return swap arrangements it executed on June 6, 2017 with four separate financial intermediaries. As such, the underlying sponsored investment fund was consolidated and designated a CIV during the three months ended June 30, 2017.

As of June 30, 2017 and March 31, 2017, Legg Mason's investment in CIVs was $36,026 and $28,300, respectively, which represent its maximum risk of investment loss, excluding uncollected advisory fees. In addition, as of June 30, 2017, under the above referenced total return swap arrangements, Legg Mason receives the related investment gains and losses on notional amounts totaling $20,253. The assets of these CIVs are primarily comprised of investment securities. Investors and creditors of these CIVs have no recourse to the general credit or assets of Legg Mason beyond its investment in these funds.

See Notes 2 and 4 for additional information regarding VIEs, VREs, and the consolidation of investment products.

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The following tables reflect the impact of CIVs in the Consolidated Balance Sheets as of June 30, 2017 and March 31, 2017, respectively, and the Consolidated Statements of Income for the three months ended June 30, 2017 and 2016, respectively:

Consolidating Balance Sheets

	June 30, 2017				March 31, 2017			
	Balance Before Consolidation of CIVs and Other[1]	CIVs and Other[1]	Eliminations	Consolidated Totals	Balance Before Consolidation of CIVs and Other[1]	CIVs and Other[1]	Eliminations	Consolidated Totals
Current Assets	$1,541,578	$97,091	$(33,068)	$1,605,601	$1,749,959	$77,406	$(25,618)	$1,801,747
Non-current assets	6,441,831	9,968	(2,971)	6,448,828	6,481,376	9,987	(2,695)	6,488,668
Total Assets	$7,983,409	$107,059	$(36,039)	$8,054,429	$8,231,335	$87,393	$(28,313)	$8,290,415
Current Liabilities	$584,635	$1,762	$(13)	$586,384	$808,664	$736	$(13)	$809,387
Non-current liabilities	2,789,069	—	—	2,789,069	2,792,084	—	—	2,792,084
Total Liabilities	3,373,704	1,762	(13)	3,375,453	3,600,748	736	(13)	3,601,471
Redeemable Non-controlling interests	614,819	12,691	56,693	684,203	619,302	26,853	31,617	677,772
Total Stockholders' Equity	3,994,886	92,606	(92,719)	3,994,773	4,011,285	59,804	(59,917)	4,011,172
Total Liabilities and Equity	$7,983,409	$107,059	$(36,039)	$8,054,429	$8,231,335	$87,393	$(28,313)	$8,290,415

(1) Other represents consolidated sponsored investment products (VREs) that are not designated as CIVs.

Consolidating Statements of Income

	Three Months Ended							
	June 30, 2017				June 30, 2016			
	Balance Before Consolidation of CIVs and Other[1]	CIVs and Other[1]	Eliminations	Consolidated Totals	Balance Before Consolidation of CIVs and Other	CIVs and Other[1]	Eliminations	Consolidated Totals
Total Operating Revenues	$793,886	$—	$(44)	$793,842	$700,177	$(12)	$—	$700,165
Total Operating Expenses	686,614	68	(45)	686,637	626,511	99	—	626,610
Operating Income (Loss)	107,272	(68)	1	107,205	73,666	(111)	—	73,555
Total Non-Operating Income (Expense)	(16,127)	1,239	(525)	(15,413)	(15,495)	2,548	43	(12,904)
Income Before Income Tax Provision	91,145	1,171	(524)	91,792	58,171	2,437	43	60,651
Income tax provision	28,255	—	—	28,255	15,311	—	—	15,311
Net Income	62,890	1,171	(524)	63,537	42,860	2,437	43	45,340
Less: Net income attributable to noncontrolling interests	11,970	243	404	12,617	9,408	2	2,478	11,888
	$50,920	$928	$(928)	$50,920	$33,452	$2,435	$(2,435)	$33,452

Net Income Attributable to
Legg Mason, Inc.

(1) Other represents consolidated sponsored investment products (VREs) that are not designated as CIVs.

Non-Operating Income (Expense) includes interest income, interest expense, and net gains (losses) on investments.

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The consolidation of CIVs has no impact on Net Income Attributable to Legg Mason, Inc.

As of June 30, 2017 and March 31, 2017, financial assets of CIVs carried at fair value totaling $67,241 and $33,991, respectively, were valued using Level 1 inputs and totaling $23,054 and $24,734, respectively, were valued using NAV as a practical expedient. Legg Mason had no financial liabilities of CIVs carried at fair value as of June 30, 2017 or March 31, 2017.

There were no transfers between Level 1 and Level 2 during either of the three months ended June 30, 2017 and 2016.

The NAVs used as a practical expedient by CIVs have been provided by the investees and have been derived from the fair values of the underlying investments as of the respective reporting dates. The following table summarizes, as of June 30, 2017 and March 31, 2017, the nature of these investments and any related liquidation restrictions or other factors, which may impact the ultimate value realized:

		Fair Value Determined Using NAV		As of June 30, 2017	
Category of Investment	Investment Strategy	June 30, 2017	March 31, 2017	Unfunded Commitments	Remaining Term
Hedge funds	Global macro, fixed income, long/short equity, systematic, emerging market, U.S. and European hedge	$ 23,054 (1)	$ 24,734	n/a	n/a

n/a - not applicable

(1) Redemption restrictions: 4% daily redemption; 7% monthly redemption; 47% quarterly redemption; and 42% are subject to three to five-year lock-up or side pocket provisions.

As of June 30, 2017 and March 31, 2017, for VIEs in which Legg Mason holds a variable interest, but for which it was not the primary beneficiary, Legg Mason's carrying value and maximum risk of loss were as follows:

	As of June 30, 2017		As of March 31, 2017	
	Equity Interests on the Consolidated Balance Sheet (1)	Maximum Risk of Loss (2)	Equity Interests on the Consolidated Balance Sheet (1)	Maximum Risk of Loss (2)
Real Estate Investment Trusts	$ 12,257	$ 14,760	$ 11,660	$ 15,763