LEGG MASON, INC.
Form 10-Q
February 05, 2018
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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 December 31, 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.
84,540,288 shares of common stock as of the close of business on January 31, 2018.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | December 31, 2017 | March 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $680,322 | $733,709 |
| Cash and cash equivalents of consolidated investment vehicles | 4,325 | 651 |
| Restricted cash | 17,605 | 16,046 |
| Receivables: | | |
| Investment advisory and related fees | 482,652 | 433,192 |
| Other | 53,105 | 70,527 |
| Investment securities | 409,369 | 423,619 |
| Investment securities of consolidated investment vehicles | 126,942 | 49,901 |
| Other | 72,744 | 74,102 |
| Other current assets of consolidated investment vehicles | 1,694 | — |
| Total Current Assets | 1,848,758 | 1,801,747 |
| Fixed assets, net | 148,859 | 159,662 |
| Intangible assets, net | 3,800,885 | 4,034,380 |
| Goodwill | 1,925,650 | 1,924,889 |
| Deferred income taxes | 204,787 | 202,843 |
| Other | 137,055 | 156,907 |
| Other assets of consolidated investment vehicles | 9,172 | 9,987 |
| TOTAL ASSETS | $8,075,166 | $8,290,415 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accrued compensation | $390,976 | $486,679 |
| Accounts payable and accrued expenses | 198,481 | 181,793 |
| Short-term borrowings | 225,500 | — |
| Contingent consideration | 16,625 | 22,316 |
| Other | 100,519 | 117,863 |
| Other current liabilities of consolidated investment vehicles | 487 | 736 |
| Total Current Liabilities | 932,588 | 809,387 |
| Deferred compensation | 98,586 | 87,757 |
| Deferred income taxes | 123,788 | 329,229 |
| Contingent consideration | 4,076 | 14,494 |
| Other | 133,106 | 138,737 |
| Long-term debt, net | 2,221,824 | 2,221,867 |
| TOTAL LIABILITIES | 3,513,968 | 3,601,471 |
| Commitments and Contingencies (Note 9) | | |
| REDEEMABLE NONCONTROLLING INTERESTS | 727,706 | 677,772 |
| STOCKHOLDERS' EQUITY | | |

| | | |
|---|---|---|
| Common stock, par value $.10; authorized 500,000,000 shares; issued 84,490,108 shares for December 2017 and 95,726,628 shares for March 2017 | 8,449 | 9,573 |
| Additional paid-in capital | 1,960,021 | 2,385,726 |
| Employee stock trust | (21,860) | (24,057) |
| Deferred compensation employee stock trust | 21,860 | 24,057 |
| Retained earnings | 1,911,479 | 1,694,859 |
| Accumulated other comprehensive loss, net | (74,118) | (106,784) |
| Total stockholders' equity attributable to Legg Mason, Inc. | 3,805,831 | 3,983,374 |
| Nonredeemable noncontrolling interest | 27,661 | 27,798 |
| TOTAL STOCKHOLDERS' EQUITY | 3,833,492 | 4,011,172 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $8,075,166 | $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 December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| OPERATING REVENUES | | | | |
| Investment advisory fees: | | | | |
| Separate accounts | $255,696 | $231,922 | $758,870 | $692,103 |
| Funds | 395,370 | 368,962 | 1,170,633 | 1,109,504 |
| Performance fees | 58,926 | 22,913 | 181,284 | 82,342 |
| Distribution and service fees | 81,463 | 90,195 | 241,037 | 276,122 |
| Other | 1,635 | 1,249 | 3,446 | 3,705 |
| Total Operating Revenues | 793,090 | 715,241 | 2,355,270 | 2,163,776 |
| OPERATING EXPENSES | | | | |
| Compensation and benefits | 362,071 | 327,862 | 1,143,329 | 1,054,817 |
| Distribution and servicing | 124,254 | 123,191 | 370,237 | 376,722 |
| Communications and technology | 54,239 | 52,630 | 155,841 | 156,643 |
| Occupancy | 24,982 | 23,537 | 74,561 | 87,237 |
| Amortization of intangible assets | 6,071 | 7,277 | 18,492 | 19,251 |
| Impairment charges | 195,000 | 35,000 | 229,000 | 35,000 |
| Contingent consideration fair value adjustments | 739 | (14,500) | (15,811) | (39,500) |
| Other | 53,067 | 49,078 | 155,330 | 161,252 |
| Total Operating Expenses | 820,423 | 604,075 | 2,130,979 | 1,851,422 |
| OPERATING INCOME (LOSS) | (27,333) | 111,166 | 224,291 | 312,354 |
| NON-OPERATING INCOME (EXPENSE) | | | | |
| Interest income | 1,827 | 1,713 | 4,867 | 5,106 |
| Interest expense | (29,088) | (29,495) | (87,431) | (81,985) |
| Other income, net | 5,519 | 6,126 | 24,196 | 22,686 |
| Non-operating income of consolidated investment vehicles, net | 8,225 | 1,458 | 11,316 | 9,892 |
| Total Non-Operating Income (Expense) | (13,517) | (20,198) | (47,052) | (44,301) |
| INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT) | (40,850) | 90,968 | 177,239 | 268,053 |
| Income tax provision (benefit) | (209,396) | 26,441 | (142,468) | 71,654 |
| NET INCOME | 168,546 | 64,527 | 319,707 | 196,399 |
| Less: Net income attributable to noncontrolling interests | 19,324 | 13,088 | 43,901 | 45,067 |
| NET INCOME ATTRIBUTABLE TO LEGG MASON, INC. | $149,222 | $51,439 | $275,806 | $151,332 |
| | | | | |
| NET INCOME PER SHARE ATTRIBUTABLE TO LEGG MASON, INC. SHAREHOLDERS: | | | | |
| Basic | $1.59 | $0.50 | $2.87 | $1.44 |
| Diluted | 1.58 | 0.50 | 2.86 | 1.43 |
| | | | | |
| DIVIDENDS DECLARED PER SHARE | $0.28 | $0.22 | $0.84 | $0.66 |

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 December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| NET INCOME | $168,546 | $64,527 | $319,707 | $196,399 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 190 | (43,666 ) | 32,303 | (55,797 ) |
| Reclassification of cumulative foreign currency translation on Legg Mason Poland sale | — | 2,493 | — | 2,493 |
| Unrealized losses on interest rate swap: | | | | |
| Unrealized losses on interest rate swap, net of tax benefit of $1,708 | — | — | — | (2,718 ) |
| Reclassification adjustment for losses included in net income, net of tax benefit of $1,708 | — | — | — | 2,718 |
| Net unrealized losses on interest rate swap | — | — | — | — |
| Changes in defined benefit pension plan | 123 | 3,568 | 363 | (16,483 ) |
| Total other comprehensive income (loss) | 313 | (37,605 ) | 32,666 | (69,787 ) |
| COMPREHENSIVE INCOME | 168,859 | 26,922 | 352,373 | 126,612 |
| Less: Comprehensive income attributable to noncontrolling interests | 19,634 | 17,123 | 42,401 | 49,161 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO LEGG MASON, INC. | $149,225 | $9,799 | $309,972 | $77,451 |

See Notes to Consolidated Financial Statements

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

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC. | | |
| COMMON STOCK | | |
| Beginning balance | $9,573 | $10,701 |
| Stock options exercised | 37 | 14 |
| Deferred compensation employee stock trust | 1 | 1 |
| Stock-based compensation | 94 | 41 |
| Employee tax withholdings by settlement of net share transactions | (35) | (36) |
| Shares repurchased and retired | (1,221) | (912) |
| Ending balance | 8,449 | 9,809 |
| ADDITIONAL PAID-IN CAPITAL | | |
| Beginning balance | 2,385,726 | 2,693,113 |
| Stock options exercised | 10,593 | 3,906 |
| Deferred compensation employee stock trust | 419 | 385 |
| Stock-based compensation | 54,334 | 60,567 |
| Performance-based restricted share units related to the acquisition of Clarion Partners | — | 11,121 |
| Employee tax withholdings by settlement of net share transactions | (13,039) | (11,809) |
| Shares repurchased and retired | (477,918) | (290,762) |
| Redeemable noncontrolling interest reclassification for affiliate management equity plans | (94) | (3,632) |
| Ending balance | 1,960,021 | 2,462,889 |
| EMPLOYEE STOCK TRUST | | |
| Beginning balance | (24,057) | (26,263) |
| Shares issued to plans | (420) | (386) |
| Distributions and forfeitures | 2,617 | 1,663 |
| Ending balance | (21,860) | (24,986) |
| DEFERRED COMPENSATION EMPLOYEE STOCK TRUST | | |
| Beginning balance | 24,057 | 26,263 |
| Shares issued to plans | 420 | 386 |
| Distributions and forfeitures | (2,617) | (1,663) |
| Ending balance | 21,860 | 24,986 |
| RETAINED EARNINGS | | |
| Beginning balance | 1,694,859 | 1,576,242 |
| Net Income Attributable to Legg Mason, Inc. | 275,806 | 151,332 |
| Dividends declared | (80,442) | (68,377) |
| Reclassifications to noncontrolling interest for: | | |
| EnTrustPermal combination | — | (15,500) |
| Net increase in estimated redemption value of affiliate management equity plans and affiliate noncontrolling interests | (3,071) | (2,629) |
| Adoption of new stock-based compensation guidance | 24,327 | — |
| Ending balance | 1,911,479 | 1,641,068 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET | | |
| Beginning balance | (106,784) | (66,493) |
| Changes in defined benefit pension plan | 363 | (16,483) |

| | | |
|---|---|---|
| Foreign currency translation adjustment | 32,303 | (55,797) |
| Reclassification of cumulative foreign currency translation on Legg Mason Poland sale | — | 2,493 |
| Ending balance | (74,118) | (136,280) |
| TOTAL STOCKHOLDERS' EQUITY ATTRIBUTABLE TO LEGG MASON, INC. | 3,805,831 | 3,977,486 |
| NONREDEEMABLE NONCONTROLLING INTEREST | | |
| Beginning balance | 27,798 | 22,202 |
| Net income attributable to noncontrolling interests | 6,387 | 5,732 |
| Distributions | (6,524) | (4,555) |
| Ending balance | 27,661 | 23,379 |
| TOTAL STOCKHOLDERS' EQUITY | $3,833,492 | $4,000,865 |

See Notes to Consolidated Financial Statements

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

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | $319,707 | $196,399 |
| Adjustments to reconcile Net Income to net cash provided by operations: | | |
| Impairments of intangible assets | 229,000 | 35,000 |
| Tax benefit for new Tax Law | (213,675) | — |
| Depreciation and amortization | 54,551 | 60,639 |
| Accretion and amortization of securities discounts and premiums, net | 2,255 | 3,058 |
| Stock-based compensation, including $15,200 related to Clarion Partners affiliate management equity plan in 2016 | 55,002 | 71,922 |
| Net unrealized gains on investments | (21,841) | (25,633) |
| Net (gains) losses and earnings on investments | (2,874) | 959 |
| Net gains of consolidated investment vehicles | (11,316) | (9,892) |
| Deferred income taxes | 46,650 | 59,729 |
| Contingent consideration fair value adjustments | (15,811) | (39,500) |
| Payment of contingent consideration | (739) | — |
| Other | (196) | 585 |
| Decrease (increase) in assets: | | |
| Investment advisory and related fees receivable | (47,603) | (18,456) |
| Net sales of trading and other investments | 43,550 | 61,935 |
| Other receivables | 5,471 | (5,768) |
| Other assets | 2,199 | (13,070) |
| Assets of consolidated investment vehicles | (54,648) | 17,530 |
| Increase (decrease) in liabilities: | | |
| Accrued compensation | (97,419) | 12,068 |
| Deferred compensation | 10,633 | 21,530 |
| Accounts payable and accrued expenses | 15,278 | (4,689) |
| Other liabilities | (24,853) | (74,896) |
| Other liabilities of consolidated investment vehicles | (249) | (2,489) |
| CASH PROVIDED BY OPERATING ACTIVITIES | $293,072 | $346,961 |

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

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for fixed assets | $(24,540) | $(27,489) |
| Business investments and acquisitions, net of cash acquired of $33,547 in 2016 | (2,950) | (1,009,928) |
| Proceeds from sale of businesses | — | 12,081 |
| Contingent payment from prior sale of business | 2,561 | — |
| Change in restricted cash | (1,262) | 4,849 |
| Returns of capital and proceeds from sales and maturities of investments | 7,637 | 5,541 |
| CASH USED IN INVESTING ACTIVITIES | (18,554) | (1,014,946) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repurchases of common stock | (479,139) | (291,674) |
| Dividends paid | (76,000) | (66,178) |
| Distributions to affiliate noncontrolling interests | (43,477) | (23,351) |
| Net subscriptions/(redemptions) attributable to noncontrolling interests | 44,708 | (18,310) |
| Employee tax withholdings by settlement of net share transactions | (13,074) | (11,845) |
| Issuances of common stock for stock-based compensation | 11,050 | 4,306 |
| Proceeds from issuance of long-term debt | — | 500,000 |
| Net increase (decrease) in short-term borrowings | 225,500 | (40,000) |
| Debt issuance costs | — | (17,639) |
| Payment of contingent consideration | (2,503) | (6,587) |
| CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (332,935) | 28,722 |
| EFFECT OF EXCHANGE RATES ON CASH | 5,030 | (357) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (53,387) | (639,620) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 733,709 | 1,329,126 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $680,322 | $689,506 |
| SUPPLEMENTAL DISCLOSURE | | |
| Cash paid for: | | |
| Income taxes, net of refunds of $9,471 and $1,085, respectively | $16,770 | $14,436 |
| Interest | 67,482 | 59,601 |

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)
December 31, 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 Contingent consideration fair value adjustments in the Consolidated Statements of Income and amounts for cash flows from financing activities related to noncontrolling interests in the Consolidated Statements of Cash Flows.

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 in Note 4, 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 December 31, 2017, March 31, 2017, and December 31, 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.

As of December 31, 2017, March 31, 2017, and December 31, 2016, Legg Mason concluded it was the primary beneficiary of certain VIEs because it held significant financial interests in the funds. In addition, during the nine months ended December 31, 2017, Legg Mason entered into various total return swap arrangements with financial intermediaries with respect to two Legg Mason sponsored exchange traded funds ("ETFs"). 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 each of the two related funds, and is deemed to be the primary beneficiary. Legg Mason consolidates each of the two ETFs, which were designated as CIVs. See Notes 4 and 13 for additional information related to VIEs and CIVs and Note 12 for additional information regarding total return swaps.

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. Payments of amounts equal to or less than the acquisition date fair value are reflected as Cash Flows from Financing Activities in the Consolidated Statements of Cash Flows, while payments of amounts in excess of the acquisition date fair value are reflected as Cash Flows from Operating Activities in the Consolidated Statements of Cash Flows. 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.

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

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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, during the nine months ended December 31, 2017, Legg Mason entered into various total return swap arrangements with financial intermediaries with respect to two Legg Mason sponsored ETFs for initial aggregate notional amounts totaling $48,639 which resulted in investments in the ETFs by each of those financial intermediaries. As of December 31, 2017, the aggregate notional amounts related to these total return swap arrangements totaled $51,066. 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 futures contracts 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 $297 and $1,417 during the three and nine months ended December 31, 2017, respectively, 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 and nine months ended December 31, 2017, $123 and $363, respectively, of previously unrecognized losses on a defined benefit pension plan were reclassified and expensed as further described in Note 3, during the three and nine months ended December 31, 2016, $2,493 of cumulative foreign currency translation related to the sale of Legg Mason Poland was reclassified and expensed, and during the nine months ended December 31, 2016, $4,426 was realized on the settlement of an interest rate swap, which was also

reclassified and expensed, as further described in Note 7.

Income Taxes

On December 22, 2017, H.R. 1 "An Act to Provide for the Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (the "Tax Law") became enacted law. The Tax Law is complex, materially changes the U.S. corporate income tax rate from 35% to 21%, and includes various changes which will impact Legg Mason. The reduction in the U.S. corporate tax rate resulted in a one-time, non-cash provisional tax benefit of $220,935, recognized in the three months ended December 31, 2017, due to the re-measurement of certain existing deferred tax assets and liabilities at the new income tax rate. In addition, a non-cash tax charge of $7,260 was provisionally provided in the three months ended December 31, 2017, for the effects on unremitted foreign earnings and other aspects of the Tax Law. Legg Mason's

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re-measurement of its deferred tax assets and liabilities is subject to further adjustments during the measurement period due to the complexity of determining its net deferred tax liability as of the enactment date. Further, our accounting for the tax on unremitted foreign earnings is incomplete due to the complexity of determining the various components of the calculation, including the relevant level of our foreign earnings and profits and the amount of those earnings held in cash and other specified assets. Adjustments to these provisional items may be made in subsequent periods as more detailed information and guidance is obtained and analyzed.

The income tax provision (benefit) and effective tax (benefit) rate were also impacted by the following items during the three and nine months ended December 31, 2017 and 2016.

Noncontrolling interests in EnTrustPermal Group Holdings, LLC ("EnTrustPermal"), Clarion Partners, LLC ("Clarion Partners") and Royce & Associates ("Royce") are structured as partnerships that pass an allocable portion of tax attributes and obligations 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. Due to the significant tax benefit recognized in the three months ended December 31, 2017, as further discussed above, the impact of noncontrolling interests increased the effective tax rate by over 100 percentage points for the three months ended December 31, 2017 and increased the effective benefit rate by approximately 23 percentage points for the nine months ended December 31, 2017. For the three and nine months ended December 31, 2016, the impact of noncontrolling interests resulted in a reduction in the effective tax rate of 6.2 percentage points and 2.2 percentage points, respectively.

During the three months ended December 31, 2017, changes in apportionment on state deferred tax liabilities and changes in state law resulted in additional net tax expense of $3,255, and reduced the effective tax rate by 8.0 percentage points and the effective tax benefit by 1.8 percentage points for the three and nine months ended December 31, 2017, respectively. As a result of the impairment of certain intangible assets at EnTrustPermal further discussed below, the three and nine months ended December 31, 2017, also included income tax expense of $3,900 due to the reversal of income tax benefits previously recognized in connection with the impact of changes in the U.K. corporate tax rate on deferred tax liabilities associated with those intangible assets. This expense reduced the effective tax rate by 9.5 percentage points and the effective tax benefit by 2.2 percentage points for the three and nine months ended December 31, 2017, 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 $297 and $1,417 during the three and nine months ended December 31, 2017, respectively, which reduced the effective tax rate by 0.7 percentage points and the effective tax benefit by 0.8 percentage points for the three and nine months ended December 31, 2017, respectively.

During the three months ended December 31, 2016, an increase in the valuation allowance related to certain state net operating loss carryforwards and foreign tax credits resulted in additional tax expense of $4,755, and increased the effective tax rate by 5.2 percentage points and 1.8 percentage points for the three and nine months ended December 31, 2016, respectively. This expense was offset in part by an income tax benefit of $2,865 recognized during the three months ended December 31, 2016, for provision to return adjustments recognized in connection with the filing of fiscal year 2016 tax returns, which reduced the effective tax rate by 3.1 percentage points and 1.1 percentage points for the three and nine months ended December 31, 2016, respectively.

In September 2016, the U.K. Finance Act 2016 was enacted, which reduced the main U.K. corporate tax rate effective on April 1, 2020 from 18% to 17%. The reduction in the U.K. corporate tax rate resulted in a tax benefit of $4,055, recognized in the three months ended September 30, 2016, as a result of the revaluation of certain existing deferred tax assets and liabilities at the new rate, which reduced the effective tax rate by 1.5 percentage points for the nine months ended December 31, 2016. During the three months ended September 30, 2016, Legg Mason also recognized income tax benefits of $2,200 as a result of reserve adjustments related to the conclusion of certain tax examinations, which reduced the effective tax rate by 0.8 percentage points for the nine months ended December 31, 2016.

Recent Accounting Developments

In August 2017, the Financial Accounting Standards Board ("FASB") updated the guidance on accounting for derivative hedging. The updated guidance more closely aligns the results of cash flow and fair value hedging designations with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The new guidance also simplifies the application of hedge accounting. The updated guidance is effective for Legg Mason in fiscal 2020, unless adopted earlier.

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Legg Mason uses accounting hedge designation from time-to-time and would only potentially be impacted if derivative transactions were designated for hedging.

In February 2016, the 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 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 and April 2016, the FASB further updated the revenue guidance on determining whether to report revenue on a gross versus net basis and clarified the identification of revenue performance obligations.

Legg Mason has reviewed its revenue contracts, and is 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. This is earlier than under its current revenue recognition process, which defers recognition until all contingencies are resolved. Additionally, Legg Mason expects certain separate account commissions currently expensed when paid will meet the criteria for capitalization and amortization. This change will require recognition of a deferred commissions cost asset, but is not expected to materially impact the amount of commission expense recognized post adoption. Legg Mason has also evaluated whether revenue-related costs currently presented on a gross basis will be recorded net, or vice versa. While most of Legg Mason's revenue-related costs will continue to be recorded on a gross basis, certain fund reimbursements paid will begin to be recorded as a contra revenue (net) under the new guidance.

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 included a fair value reclassification of $15,500 from retained earnings at the time of the acquisition.

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% |

After the completion of the annual impairment testing process in fiscal 2017, the indefinite-life funds management contracts asset related to the EnTrust acquisition was combined with the indefinite-life funds-of-hedge funds management contracts asset related to the legacy Permal business. During the three months ended December 31, 2017, the combined EnTrustPermal indefinite-life funds management contracts asset was impaired by $195,000. See Note 6 for additional information.

Costs incurred in connection with the acquisition of EnTrust were $7,031 during the nine months ended December 31, 2016.

The financial results of EnTrust included in Legg Mason's consolidated financial results for the three and nine months ended December 31, 2016, include revenues of $39,206 and $84,472, respectively, 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 $90,313 through December 31, 2017, which includes $1,312 and $5,232, respectively, recognized during the three and nine months ended December 31, 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 $2,000 to $3,000 during the remainder of fiscal 2018 and fiscal 2019.

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The table below presents a summary of changes in the restructuring and transition-related liability from December 31, 2015 through December 31, 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 | 1,608 | 650 | 2,258 |
| Payments | (4,776) | (4,449) | (9,225) |
| Balance as of December 31, 2017 | $ 155 | $2,752 | $2,907 |
| 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 |
| Nine months ended December 31, 2017 | 2,970 | 4 | 2,974 |
| Total | $ 7,984 | $4,543 | $12,527 |
| | | | |
| Cumulative charges incurred through December 31, 2017 | $ 64,064 | $26,249 | $90,313 |

(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.

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% |

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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 nine months ended December 31, 2016, there were $10,741 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 and nine months ended December 31, 2016, include revenues of $50,786 and $191,559, respectively, and did not have a material impact to Net Income Attributable to Legg Mason, Inc.

Pro Forma Financial Information

The following unaudited pro forma financial information presents the combined financial results of Legg Mason, Clarion Partners, and EnTrust, 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 December 31, 2016 | Nine Months Ended December 31, 2016 |
|---|---|---|
| Revenues | $ 715,241 | $ 2,181,127 |
| Net Income Attributable to Legg Mason, Inc. | 53,243 | 196,830 |
| Net Income Per Share Attributable to Legg Mason, Inc. Shareholders: | | |
| Basic | $ 0.52 | $ 1.87 |

| | | |
|---|---|---|
| Diluted | 0.52 | 1.87 |

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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 addition, contingent consideration may be due March 31, 2018, of up to $82,792 (using the foreign exchange rate as of December 31, 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.

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, and during the three months ended December 31, 2016, the amortizable intangible asset management contracts asset was impaired by $18,000. 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.

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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 December 31, 2017, the fair value of the contingent consideration liability was $2,176, a decrease of $15,268 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 during the nine months ended December 31, 2017 of $18 is attributable to changes in the exchange rate, which is included in Accumulated other comprehensive loss, net, as Foreign currency translation adjustment, net of accretion. The total contingent consideration liability was included in non-current Contingent consideration in the Consolidated Balance Sheet as of December 31, 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 $439,331 (using the foreign exchange rate as of December 31, 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.

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% |

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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 December 31, 2017, the fair value of the contingent consideration liability was $12,960, an increase of $942 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 December 31, 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) 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 March 31, 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), unless when 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 is amortized as Compensation and benefits expense over the recovery period of 15 years. During the three and nine months ended December 31, 2017, $123 and $363, respectively, of such previously unrecognized losses were expensed under the corridor approach.

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

| | December 31, 2017 | March 31, 2017 |
|---|---|---|
| Fair value of plan assets (at 5.4% expected weighted-average long-term return) | $64,225 | $59,623 |
| Benefit obligation (at 2.7% discount rate) | (102,354) | (97,137) |
| Unfunded status (excess of benefit obligation over plan assets) | $(38,129) | $(37,514) |

For the three months ended December 31, 2017 and 2016, a net periodic benefit cost of $25 and $28, respectively, and for the nine months ended December 31, 2017 and 2016, a net periodic benefit cost of $76 and $66, respectively, was included in Compensation and benefits expense in the Consolidated Statements of Income. Net actuarial losses of $17,633 and $16,681 were included in Accumulated other comprehensive loss, net, in the Consolidated Balance Sheets at December 31, 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, the trustees of the pension and the Regulator have agreed to a revised 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.

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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. In December 2017, Legg Mason paid all contingent consideration due of $3,242. The cash payments were funded with existing cash resources. The contingent consideration liability as of March 31, 2017 was $2,507. In connection with the acquisition, Legg Mason recognized indefinite-life intangible fund management contracts and goodwill of $6,619 and $827, respectively.

QS Investors Holdings, LLC
Effective May 31, 2014, Legg Mason acquired all of the outstanding equity interests of QS Investors, a customized solutions and global quantitative equities provider. The initial purchase price was a cash payment of $11,000, funded from existing cash. In August 2016, Legg Mason paid contingent consideration of $6,587 for the second anniversary payment. 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.

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 December 31, 2017, the fair value of the contingent consideration liability was $3,665, a decrease of $1,176 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 $124 attributable to accretion. The contingent consideration liability was included in current Contingent consideration in the Consolidated Balance Sheet as of December 31, 2017 and non-current Contingent consideration in the Consolidated Balance Sheet as of 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 potential

contingent payment of up to $3,000 based on certain metrics within the first year after the acquisition. No contingent payment was due based on relevant metrics. 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 December 31, 2017. As of March 31, 2017, no contingent consideration liability was recorded in the Consolidated Balance Sheet.

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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 Sheets as of December 31, 2017 and March 31, 2017, under the equity method of accounting.

Other

In December 2017, Legg Mason completed two small acquisitions, which required initial cash payment of $700, which was funded from existing cash resources, and potential contingent consideration of up to $1,900.

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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 and NAV, 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 December 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 | $289,214 | $ — | $ — | $ — | $289,214 |
| Time deposits and other | — | 12,317 | — | — | 12,317 |
| Total cash equivalents | 289,214 | 12,317 | — | — | 301,531 |
| Trading investments of proprietary fund products and other trading investments:(2) | | | | | |
| Seed capital investments | 120,329 | 58,158 | — | 3,593 | 182,080 |
| Other(3) | 26,717 | 2,556 | — | — | 29,273 |
| Trading investments relating to long-term incentive compensation plans(4) | 187,473 | — | — | 103 | 187,576 |
| Equity method investments relating to long-term incentive compensation plans(5) | — | — | 1,431 | 9,009 | 10,440 |
| Total current investments(6) | 334,519 | 60,714 | 1,431 | 12,705 | 409,369 |
| Equity method investments in partnerships and LLCs:(5)(7) | | | | | |
| Seed capital investments(6) | — | — | 891 | 15,595 | 16,486 |
| Seed capital investments in real estate funds | — | — | 27,837 | — | 27,837 |
| Other | — | — | — | 12,569 | 12,569 |
| Investments in partnerships and LLCs:(7) | | | | | |
| Seed capital investments | — | — | — | 3,287 | 3,287 |
| Investments related to long-term incentive compensation plans | — | — | 9,367 | — | 9,367 |
| Other | — | 102 | 380 | — | 482 |
| Derivative assets(7)(8) | 7,183 | — | — | — | 7,183 |
| Other investments(7) | — | — | 112 | — | 112 |
| Total | $630,916 | $ 73,133 | $ 40,018 | $ 44,156 | $788,223 |
| Liabilities: | | | | | |
| Contingent consideration liabilities(9) | $— | $ — | $ (20,701 ) | $ — | $(20,701 ) |
| Derivative liabilities(8) | (2,288 ) | — | — | — | (2,288 ) |
| Total | $(2,288 ) | $ — | $ (20,701 ) | $ — | $(22,989 ) |

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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 | — | — | 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 | — | 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 77% and 23% equity and debt securities, respectively, as of December 31, 2017, and approximately 79% and 21% equity and debt securities, respectively, as of March 31, 2017.

(3)

Includes $13,696 and $26,854 in noncontrolling interests associated with consolidated seed investment products as of December 31, 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 $41,548 and $28,300 of seed capital as of December 31, 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 Notes 3 and 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 $271,238 and $305,288, as of December 31, 2017 and March 31, 2017, respectively, which are substantially comprised of investments in 58 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, during the nine months ended December 31, 2017, Legg Mason entered into various total return swap arrangements with financial intermediaries with respect to two Legg Mason sponsored ETFs for initial aggregate notional amounts totaling $48,639 which resulted in the investment in the two ETFs by these 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 each of the sponsored investment funds, which were designated as CIVs.

See Notes 2 and 13 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 $9,382, and $1,617 for the three months ended December 31, 2017 and 2016, respectively, and $32,184, and $26,969 for the nine months ended December 31, 2017 and 2016, respectively.

The net unrealized gains (losses) relating to trading investments still held as of the reporting dates were $5,975 and $(165) for the three months ended December 31, 2017 and 2016, respectively, and $16,115 and $16,991 for the nine months ended December 31, 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 and nine months ended December 31, 2017 and 2016, are presented in the tables below:

| | Balance as of September 30, 2017 | Purchases | Sales | Redemptions/ Settlements/ Other | Transfers | Realized and unrealized gains/(losses), net | Balance as of December 31, 2017 |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Equity method investments relating to long-term incentive compensation plans | $ 1,393 | $ 11 | $ — | $ (11 ) | $ — | $ 38 | $ 1,431 |
| Equity method investments in partnerships and LLCs: | | | | | | | |
| Seed capital investments | 851 | — | — | — | — | 40 | 891 |
| Seed capital investments in real estate funds | 27,382 | 868 | — | (1,139 ) | — | 726 | 27,837 |
| Investments in partnerships and LLCs: | | | | | | | |
| Investments related to long-term incentive compensation plans | 9,367 | — | — | — | — | — | 9,367 |
| Other proprietary fund products | 485 | — | — | (105 ) | — | — | 380 |
| Other investments | 114 | — | — | — | — | (2 ) | 112 |
| | $ 39,592 | $ 879 | $ — | $ (1,255 ) | $ — | $ 802 | $ 40,018 |
| Liabilities: | | | | | | | |
| Contingent consideration liabilities | $ (21,162 ) | $ (1,900 ) | n/a | $ 3,242 | n/a | $ (881 ) | $ (20,701 ) |

n/a - not applicable

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| | Balance as of September 30, 2016 | Purchases | Sales | Redemptions/ Settlements/ Other | Transfers | Realized and unrealized gains/(losses), net | Balance as of December 31, 2016 |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Equity method investments relating to long-term incentive compensation plans | $ 2,653 | $ 20 | $ — | $ (20) | $ — | $ 48 | $ 2,701 |
| Equity method investments in partnerships and LLCs: | | | | | | | |
| Seed capital investments | 552 | — | — | — | — | 39 | 591 |
| Seed capital investments in real estate funds | 25,722 | 667 | — | (197) | — | 487 | 26,679 |
| Investments in partnerships and LLCs: | | | | | | | |
| Investments related to long-term incentive compensation plans | 7,501 | 314 | — | — | — | — | 7,815 |
| Other proprietary fund products | 3,827 | — | — | (2,000) | — | 541 | 2,368 |
| Other investments | 245 | — | — | — | — | (83) | 162 |
| | $ 40,500 | $ 1,001 | $ — | $ (2,217) | $ — | $ 1,032 | $ 40,316 |
| Liabilities: | | | | | | | |
| Contingent consideration liabilities | $ (52,053) | $ — | n/a | $ — | n/a | $ 16,569 | $ (35,484) |

n/a - not applicable

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| | Balance as of March 31, 2017 | Purchases | Sales | Redemptions/ Settlements/ Other | Transfers | Realized and unrealized gains/(losses), net | Balance as of December 31, 2017 |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Equity method investments relating to long-term incentive compensation plans | $1,337 | $33 | $ — | $ (33) | $ — | $ 94 | $1,431 |
| Equity method investments in partnerships and LLCs: | | | | | | | |
| Seed capital investments | 752 | — | — | — | — | 139 | 891 |
| Seed capital investments in real estate funds | 26,909 | 3,063 | — | (3,889) | — | 1,754 | 27,837 |
| 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 | — | — | (1,510) | — | 65 | 380 |
| Other investments | 113 | — | — | — | — | (1) | 112 |
| | $41,897 | $3,148 | $ — | $ (7,078) | $ — | $ 2,051 | $40,018 |
| Liabilities: | | | | | | | |
| Contingent consideration liabilities | $(36,810) | $(1,900) | n/a | $ 3,242 | n/a | $ 14,767 | $(20,701) |

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 December 31, 2016 |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Trading investments of seed capital investments in proprietary fund products | $3 | $— | $ — | $ (3) | $ — | $ — | $— |
| Equity method investments relating to long-term incentive compensation plans | — | 2,979 | — | (448) | — | 170 | 2,701 |
| Equity method investments in partnerships and LLCs: | | | | | | | |
| Seed capital investments | 627 | — | — | — | — | (36) | 591 |
| Seed capital investments in real estate funds | — | 25,966 | — | (636) | — | 1,349 | 26,679 |
| Investments in partnerships and LLCs: | | | | | | | |
| Investments related to long-term incentive compensation plans | 7,501 | 314 | — | — | — | — | 7,815 |
| Other proprietary fund products | 4,807 | — | — | (3,000) | — | 561 | 2,368 |
| Other investments | 83 | — | — | — | — | 79 | 162 |
| | $13,021 | $29,259 | $ — | $ (4,087) | $ — | $ 2,123 | $40,316 |
| Liabilities: | | | | | | | |
| Contingent consideration liabilities | $(84,585) | $(2,000) | n/a | $ 6,587 | n/a | $ 44,514 | $(35,484) |

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 (losses) for Level 3 investments and liabilities still held at the reporting date was $(79) and $15,448 for the three months ended December 31, 2017 and 2016, respectively, and $16,818, and $44,636 for the nine months ended December 31, 2017 and 2016, respectively.

There were no significant transfers between Level 1 and Level 2 during the three and nine months ended December 31, 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 December 31, 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 December 31, 2017 | |
|---|---|---|---|---|---|
| Category of Investment | Investment Strategy | December 31, 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 | $11,024 (1) | $18,537 | n/a | n/a |
| Hedge funds | Fixed income - developed market, event driven, fixed income - hedge, relative value arbitrage, European hedge | 9,760 | 10,107 | $20,000 | n/a |
| Private equity funds | Long/short equity | 14,231 (2) | 17,612 | 6,589 | Up to 11 years |
| Equity method | Long/short fixed income | 9,009 | 6,292 | n/a | n/a |
| Other | Various | 132 | 224 | n/a | Various (3) |
| Total | | $44,156 | $52,772 | $26,589 | |

n/a - not applicable

(1) Liquidation restrictions: 1% daily redemption, 20% monthly redemption, 11% quarterly redemption, and 68% 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 14 years.

There are no current plans to sell any of these investments held as of December 31, 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:

| | December 31, 2017 | March 31, 2017 |
|---|---|---|
| Equipment | $166,852 | $159,102 |
| Software | 319,249 | 304,943 |
| Leasehold improvements | 207,704 | 204,551 |
| Total cost | 693,805 | 668,596 |
| Less: accumulated depreciation and amortization | (544,946 ) | (508,934 ) |
| Fixed assets, net | $148,859 | $159,662 |

Depreciation and amortization expense related to fixed assets was $11,846 and $13,021 for the three months ended December 31, 2017 and 2016, respectively, and $36,059 and $41,388 for the nine months ended December 31, 2017 and 2016, respectively. The expense includes accelerated depreciation and amortization of $2,688 for the nine months ended December 31, 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:

| | December 31, 2017 | March 31, 2017 |
|---|---|---|
| Amortizable intangible asset management contracts and other | | |
| Cost | $376,872 | $408,025 |
| Accumulated amortization | (211,944 ) | (194,371 ) |
| Net | 164,928 | 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 | 401,404 | 596,404 |
| Other fund management contracts | 554,700 | 542,908 |
| Trade names | 68,302 | 69,863 |
| | 3,635,957 | 3,820,726 |
| Intangible assets, net | $3,800,885 | $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.

Indefinite-life Intangible Assets and Goodwill
Legg Mason completed its annual impairment testing process of goodwill and indefinite-life intangible assets as of December 31, 2017, and determined that the carrying value of the EnTrustPermal indefinite-life fund management contracts intangible asset exceeded its fair value, which resulted in an impairment of $195,000. The impairment charge was primarily the result of net client outflows from legacy high net worth fund products, including transfers of client funds from such products into EnTrustPermal separate accounts, and the related decline in revenues. Management estimated the fair value of this asset based upon a discounted cash flow analysis using unobservable market data inputs, which are Level 3 measurements. The significant assumptions used in the cash flow analysis included projected revenue growth rates and discount rates. Base revenues related to the EnTrustPermal fund contracts were assumed to have annual growth (contraction) rates ranging from (13)% to 6% (average: 5%), and the projected cash flows from the EnTrustPermal fund contracts were discounted at 15%.

Projected revenue growth rates for this asset are most dependent on client AUM flows, market conditions, and product investment performance. Discount rates are also influenced by market conditions, as well as interest rates and other factors. Decreases in the projected revenue growth rates and/or increases in the discount rate could result in lower fair value measurements and potential additional impairments in the EnTrustPermal indefinite-life fund management contracts intangible asset, which could be significant.

There were no other impairments to indefinite-life intangible assets or goodwill as of December 31, 2017.

As a result of uncertainty regarding future market conditions and economic results, assessing the fair value of the reporting unit and intangible assets requires significant judgment.

As of December 31, 2017, the assessed fair value of the EnTrustPermal trade name indefinite-life intangible asset exceeded the carrying value of $28,500 by 1%. Should market performance and/or AUM levels of EnTrustPermal decrease in the near term such that cash flow projections deviate from current projections, it is reasonably possible that this asset could become impaired, and the impairment could be a material amount.

As of December 31, 2017, the assessed fair value of the RARE Infrastructure indefinite-life fund management contracts intangible asset exceeded the carrying value of $132,780 by approximately 3% and the assessed fair value of the RARE Infrastructure trade name indefinite-life intangible asset exceeded the carrying value of $3,054 by approximately 19%. Should market performance and/or the related AUM levels decrease in the near term such that cash flow projections deviate from current projections, it is reasonably possible that either of these assets could become impaired, and the impairment could be a material amount.

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As of December 31, 2017, 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 a result of AUM losses and other factors during the three months ended June 30, 2017, 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 as of June 30, 2017 by 7% and therefore was not impaired. The carrying value of the trade name exceeded its fair value of $3,054, which resulted in an impairment charge of $2,000. Management estimated the fair value of the RARE Infrastructure trade name as of June 30, 2017 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 and AUM growth rates are most dependent on client AUM flows, market conditions, and product investment performance. Discount rates are also influenced by market conditions, as well as interest rates and other factors. Decreases in projected revenue or AUM growth rates and/or increases in the discount rate could result in lower fair value measurements and potential additional impairments in the RARE Infrastructure trade name intangible asset.

Legg Mason's annual impairment testing process in the prior fiscal year determined that the carrying value of the Permal trade name indefinite-life asset exceeded its fair value of $21,100, which resulted in an impairment charge of $17,000. The impairment charge was primarily the result of a decrease in revenues and a reduction in the royalty rate, reflecting a decline in the value of the Permal trade name due to a change in branding and decline in the use of the separate Permal name following the combination with EnTrust. Management estimated the fair value of the Permal trade name based upon a discounted cash flow analysis 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 3% to 9% (average: 7%), a royalty rate of 1.5% and a discount rate of 16.0%.

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 | (15,610) | — | (15,610) |
| Changes in foreign exchange rates and other | 16,371 | — | 16,371 |
| Balance as of December 31, 2017 | $3,087,550 | $(1,161,900) | $1,925,650 |

Amortizable Intangible Asset Management Contracts and Other

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 $11,180 fair value of this asset as of June 30, 2017, 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%.

Projected revenue, AUM growth rates and client attrition are most dependent on client AUM flows, market conditions, and product investment performance. Discount rates are also influenced by market conditions, as well as interest rates and other factors. Decreases in projected revenue or AUM growth rates and/or increases in the discount rate could result in lower fair value measurements and potential additional impairments in the RARE Infrastructure separate account contracts amortizable asset.

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There were no other impairments to amortizable management contract intangible assets during the nine months ended December 31, 2017.

As of December 31, 2017, the cumulative undiscounted cash flows related to the EnTrust separate account contracts amortizable asset exceeded the amortized carrying value of $51,854 by 4%. Should cash flow projections deviate from current projections due to client attrition and the related reduction in revenues and/or market performance, it is reasonably possible that this asset could be deemed to be impaired by a material amount.

During the nine months ended December 31, 2016, revenues related to the RARE Infrastructure separate account contracts asset declined. Based on revised attrition estimates, the remaining useful life of the acquired contracts was decreased from 11 years to eight years at December 31, 2016. As a result of the client attrition, the related decline in revenues, and the revised estimate of the remaining useful life, the amortized carrying value of the management contracts asset was determined to exceed its fair value and an impairment charge of $18,000 was recorded during the three months ended December 31, 2016. Management estimated the fair value of this asset based upon a discounted cash flow analysis using unobservable market data inputs, which are Level 3 measurements. The significant assumptions used in the cash flow analysis included projected AUM growth/(attrition) rates of 7%/(13)% and a discount rate of 15.5%.

As of December 31, 2017, amortizable intangible asset management contracts and other are being amortized over a weighted-average remaining life of 7.2 years.

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

| | |
|---|---|
| Remaining fiscal 2018 | $6,252 |
| 2019 | 25,008 |
| 2020 | 24,230 |
| 2021 | 24,126 |
| 2022 | 23,889 |
| Thereafter | 61,423 |
| Total | $164,928 |

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 Credit Agreement that may have arisen prior to the date of the amendment resulting from the provision of such cash collateral.

As further discussed in Note 10, on December 22, 2017, Legg Mason borrowed $225,500 under the Credit Agreement, which remained outstanding as of December 31, 2017, to purchase 5,568 shares of Legg Mason common stock from Shanda Asset Management Investment Limited ("Shanda"). As of December 31, 2017, the effective interest rate on these borrowings was 2.8%. Legg Mason had no outstanding borrowings under the Credit Agreement as of March 31, 2017.

Interest Rate Swap - Credit Agreement

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 Credit Agreement 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

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term, with scheduled reductions in notional amount and was to expire on December 29, 2020. In August 2016, in connection with the repayment of the outstanding borrowings under the revolving credit facility, the interest rate swap was terminated for a cash payment of $3,662. As a result, Legg Mason reclassified a loss of $2,249 (net of deferred income taxes of $1,413), representing the fair value of the cash flow hedge, from Accumulated other comprehensive loss, net, to Other non-operating income (expense), net.

Prior to its termination in August 2016, the swap settled monthly and during the nine months ended December 31, 2016, $764 was reclassified from Accumulated other comprehensive loss, net, to Interest expense. Until the swap was terminated, the original terms and conditions of the hedged instruments were unchanged and the swap was an effective cash flow hedge.

Long-term debt

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

| | December 31, 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 | $251,975 | $ (2,706) | $ 168 | $ 563 | $250,000 | $252,980 |
| 3.95% Senior Notes due July 2024 | 248,443 | — | 298 | 1,259 | 250,000 | 248,265 |
| 4.75% Senior Notes due March 2026 | 447,078 | — | — | 2,922 | 450,000 | 446,812 |
| 5.625% Senior Notes due January 2044 | 547,920 | — | (3,182) | 5,262 | 550,000 | 547,861 |
| 6.375% Junior Notes due March 2056 | 242,207 | — | — | 7,793 | 250,000 | 242,054 |
| 5.45% Junior Notes due September 2056 | 484,201 | — | — | 15,799 | 500,000 | 483,895 |
| Total | $2,221,824 | $ (2,706) | $ (2,716) | $ 33,598 | $2,250,000 | $2,221,867 |

As of December 31, 2017, $250,000 of Legg Mason's long-term debt matures in fiscal 2020, and $2,000,000 matures after fiscal 2022.

At December 31, 2017, the estimated fair value of Long-term debt was approximately $2,384,090. The fair value of debt was estimated using publicly quoted market prices and was classified as Level 2 in the fair value hierarchy.

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 December 31, 2017 and 2016, $451 was amortized and recorded as Interest expense in the Consolidated Statements of Income, and during each of the nine months ended December 31, 2017 and 2016, $1,353 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.

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8. Stock-Based Compensation

See Note 2 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. Effective August 1, 2017, Legg Mason's stockholders approved a new equity incentive plan, under which a total of 6,500 shares, plus shares remaining under the prior plan, are available for issuance. Shares available for issuance under the equity incentive stock plan as of December 31, 2017, were 8,269. 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.

As further discussed below, the components of Legg Mason's total stock-based compensation expense for the three and nine months ended December 31, 2017 and 2016, were as follows:

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Stock options | $1,656 | $2,084 | $5,801 | $6,368 |
| Restricted stock and restricted stock units | 11,853 | 12,509 | 41,941 | 39,823 |
| Employee stock purchase plan | 109 | 110 | 502 | 527 |
| Affiliate management equity plans | 776 | 818 | 2,328 | 21,134 |
| Non-employee director awards | 200 | — | 1,275 | 1,150 |
| Performance share units | 870 | 1,032 | 3,134 | 2,901 |
| Employee stock trust | 7 | 6 | 21 | 19 |
| Total stock-based compensation expense | $15,471 | $16,559 | $55,002 | $71,922 |

Stock Options

Stock option transactions under Legg Mason's equity incentive plans during the nine months ended December 31, 2017 and 2016, are summarized below:

| | Nine Months Ended December 31, | | | |
|---|---|---|---|---|
| | 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 | (378 ) | 29.45 | (128 ) | 27.80 |
| Canceled/forfeited | (102 ) | 47.07 | (333 ) | 36.62 |
| Options outstanding at December 31 | 4,534 | $ 38.63 | 4,798 | $ 37.77 |

At December 31, 2017, options were exercisable for 2,977 shares with a weighted-average exercise price of $37.43 and a weighted average remaining contractual life of 3.8 years. Unamortized compensation cost related to unvested options for 1,557 shares at December 31, 2017, was $9,064, which is expected to be recognized over a weighted-average period of 1.3 years.

The weighted-average fair value of service-based stock options granted during the nine months ended December 31, 2017 and 2016, using the Black-Scholes option pricing model was $8.33 and $7.78, per share, respectively.

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The following weighted-average assumptions were used in the model for grants in the nine months ended December 31, 2017 and 2016:

| | Nine Months Ended December 31, | |
|---|---|---|
| | 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.

Restricted Stock

Restricted stock and restricted stock unit transactions during the nine months ended December 31, 2017 and 2016, are summarized below:

| | Nine Months Ended December 31, | | | |
|---|---|---|---|---|
| | 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 | 1,459 | 37.67 | 1,656 | 31.26 |
| Vested | (1,361) | 39.75 | (1,225) | 39.18 |
| Canceled/forfeited | (66 ) | 38.19 | (103 ) | 43.30 |
| Unvested shares at December 31 | 3,353 | $ 38.05 | 3,386 | $ 38.91 |

Unamortized compensation cost related to unvested restricted stock and restricted stock unit awards at December 31, 2017, of $84,738 is expected to be recognized over a weighted-average period of 1.7 years.

Affiliate Management Equity Plans

In connection with the acquisition of Clarion Partners in April 2016, as further discussed in Note 3, 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 and reflected in the Consolidated Balance Sheet as Redeemable noncontrolling interest during the three months ended June 30, 2016. As of December 31, 2017, the estimated aggregate redemption amount of units under the plan, as if they were currently redeemable, was $16,200.

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 a 19% interest 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 December 31, 2017, the estimated aggregate redemption amount of units under the plan, as if they were currently redeemable, was $27,661.

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

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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 December 31, 2017 and 2016, respectively, and $2,328 and $2,453 for the nine months ended December 31, 2017 and 2016, respectively. This arrangement provides that one-half of the cost will be absorbed by the ClearBridge incentive pool. As of December 31, 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.

Other

As of December 31, 2017 and 2016, non-employee directors held 80 and 66 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 awards 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% | |