

LEGG MASON, INC.  
Form 10-Q  
February 07, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-8529

LEGG MASON, INC.  
(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of incorporation or organization)

52-1200960  
(I.R.S. Employer Identification No.)

100 International Drive - Baltimore, MD  
(Address of principal executive offices)

21202  
(Zip code)

(410) 539-0000  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

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

139,728,793 shares of common stock as of the close of business on February 2, 2012.

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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, 2011	March 31, 2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$1,232,594	\$1,375,918
Cash and cash equivalents of consolidated investment vehicles	27,205	37,153
Restricted cash	6,393	9,253
Receivables:		
Investment advisory and related fees	310,514	366,571
Other	53,802	29,466
Investment securities	415,267	400,510
Investment securities of consolidated investment vehicles	36,890	82,829
Deferred income taxes	85,656	82,174
Other	56,642	59,700
Other current assets of consolidated investment vehicles	6,583	2,982
Total current assets	2,231,546	2,446,556
Fixed assets, net	246,331	286,705
Intangible assets, net	3,860,587	3,876,775
Goodwill	1,279,319	1,311,652
Investments of consolidated investment vehicles	290,653	312,765
Deferred income taxes	201,580	232,394
Other	259,698	239,210
Other assets of consolidated investment vehicles	1,348	1,699
Total Assets	\$8,371,062	\$8,707,756
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Current Liabilities		
Accrued compensation	\$337,099	\$368,164
Accounts payable and accrued expenses	210,698	207,870
Short-term borrowings	250,000	250,000
Current portion of long-term debt	1,266	792
Other	92,460	87,393
Other current liabilities of consolidated investment vehicles	9,415	54,753
Total current liabilities	900,938	968,972
Deferred compensation	55,754	92,487
Deferred income taxes	247,936	266,193
Other	145,395	90,059
Other liabilities of consolidated investment vehicles	3,998	3,553
Long-term debt	1,125,775	1,201,076
Long-term debt of consolidated investment vehicles	265,478	278,320
Total Liabilities	2,745,274	2,900,660

Commitments and Contingencies (Note 8)

Redeemable Noncontrolling Interests	28,816	36,712
Stockholders' Equity		
Common stock, par value \$.10; authorized 500,000,000 shares; issued 139,771,172 shares and 150,218,810 shares, respectively	13,977	15,022
Additional paid-in capital	3,855,743	4,111,095
Employee stock trust	(34,702)	(34,466)
Deferred compensation employee stock trust	34,702	34,466
Retained earnings	1,650,713	1,539,984
Appropriated retained earnings of consolidated investment vehicle	12,277	10,922
Accumulated other comprehensive income, net	64,262	93,361
Total Stockholders' Equity	5,596,972	5,770,384
Total Liabilities and Stockholders' Equity	\$8,371,062	\$8,707,756
See Notes to Consolidated Financial Statements		

LEGG MASON, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Operating Revenues				
Investment advisory fees				
Separate accounts	\$187,570	\$206,180	\$588,382	\$611,366
Funds	351,598	384,341	1,128,577	1,094,531
Performance fees	6,079	34,592	34,677	76,871
Distribution and service fees	80,709	95,522	258,547	284,150
Other	1,022	1,293	3,800	3,969
Total operating revenues	626,978	721,928	2,013,983	2,070,887
Operating Expenses				
Compensation and benefits	254,402	290,423	812,405	841,406
Transition-related compensation	8,818	18,757	32,559	32,444
Total compensation and benefits	263,220	309,180	844,964	873,850
Distribution and servicing	148,275	187,412	489,422	537,946
Communications and technology	43,466	39,399	125,538	118,689
Occupancy	56,401	37,259	125,339	104,426
Amortization of intangible assets	4,869	5,776	15,951	17,253
Other	51,424	45,910	146,228	131,055
Total operating expenses	567,655	624,936	1,747,442	1,783,219
Operating Income	59,323	96,992	266,541	287,668
Other Non-Operating Income (Expense)				
Interest income	2,577	2,209	8,614	6,194
Interest expense	(21,831)	) (22,389)	) (65,828)	) (69,639)
Other income (expense)	255	18,806	(31,844)	) 44,704
Other non-operating income (expense) of consolidated investment vehicles, net	7,424	(8,462)	) 15,607	(6,356)
Total other non-operating income (expense)	(11,575)	) (9,836)	) (73,451)	) (25,097)
Income Before Income Tax Provision	47,748	87,156	193,090	262,571
Income tax provision	12,607	33,792	38,868	87,576
Net Income	35,141	53,364	154,222	174,995
Less: Net income (loss) attributable to noncontrolling interests	7,009	(8,256)	) 9,474	(9,891)
Net Income Attributable to Legg Mason, Inc.	\$28,132	\$61,620	\$144,748	\$184,886
Net Income per Share Attributable to Legg Mason, Inc. Common Shareholders:				
Basic	\$0.20	\$0.41	\$1.00	\$1.20
Diluted	\$0.20	\$0.41	\$1.00	\$1.20
Weighted Average Number of Shares Outstanding:				
Basic	140,053	149,980	144,363	153,817
Diluted	140,082	150,972	144,428	154,548

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Dividends Declared per Share	\$0.08	\$0.06	\$0.24	\$0.14
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,		
	2011	2010	2011	2010	
Net Income	\$35,141	\$53,364	\$154,222	\$174,995	
Other comprehensive income:					
Foreign currency translation adjustment	3,309	7,760	(29,357	) 27,733	
Unrealized gains (losses) on investment securities:					
Unrealized holding gains (losses), net of tax provision of \$(2), \$(54), \$167 and \$3, respectively	(3	) (80	) 250	4	
Reclassification adjustment for (gains) losses included in net income	4	3	8	—	
Net unrealized gains (losses) on investment securities	1	(77	) 258	4	
Total other comprehensive income (loss)	3,310	7,683	(29,099	) 27,737	
Comprehensive Income	38,451	61,047	125,123	202,732	
Less: Comprehensive income (loss) attributable to noncontrolling interests	7,009	(8,256	) 9,474	(9,891	)
Comprehensive Income Attributable to Legg Mason, Inc.	\$31,442	\$69,303	\$115,649	\$212,623	

See Notes to Consolidated Financial Statements

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

	Nine Months Ended December 31,		
	2011	2010	
COMMON STOCK			
Beginning balance	\$15,022	\$16,144	
Stock options and other stock-based compensation	7	60	
Deferred compensation employee stock trust	6	6	
Deferred compensation, net	119	145	
Exchangeable shares	—	110	
Equity Units exchanged	183	—	
Shares repurchased and retired	(1,360	) (1,257	)
Ending balance	13,977	15,208	
SHARES EXCHANGEABLE INTO COMMON STOCK			
Beginning balance	—	2,760	
Exchanges	—	(2,760	)
Ending balance	—	—	
ADDITIONAL PAID-IN CAPITAL			
Beginning balance	4,111,095	4,447,612	
Stock options and other stock-based compensation	13,465	28,958	

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Deferred compensation employee stock trust	1,901	1,928	
Deferred compensation, net	25,357	26,020	
Exchangeable shares	—	2,650	
Equity Units exchanged	102,831	36,312	
Shares repurchased and retired	(398,906	) (375,167	)
Ending balance	3,855,743	4,168,313	
<b>EMPLOYEE STOCK TRUST</b>			
Beginning balance	(34,466	) (33,095	)
Shares issued to plans	(1,907	) (1,749	)
Distributions and forfeitures	1,671	448	
Ending balance	(34,702	) (34,396	)
<b>DEFERRED COMPENSATION EMPLOYEE STOCK TRUST</b>			
Beginning balance	34,466	33,095	
Shares issued to plans	1,907	1,749	
Distributions and forfeitures	(1,671	) (448	)
Ending balance	34,702	34,396	
<b>RETAINED EARNINGS</b>			
Beginning balance	1,539,984	1,316,981	
Net income attributable to Legg Mason, Inc.	144,748	184,886	
Dividends declared	(34,019	) (21,930	)
Ending balance	1,650,713	1,479,937	
<b>APPROPRIATED RETAINED EARNINGS OF CONSOLIDATED INVESTMENT VEHICLE</b>			
Beginning balance	10,922	—	
Cumulative effect of change in accounting principle	—	24,666	
Net gain (loss) reclassified to appropriated retained earnings	1,355	(11,832	)
Ending balance	12,277	12,834	
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET</b>			
Beginning balance	93,361	58,227	
Unrealized holding gains on investment securities, net of tax	258	4	
Foreign currency translation adjustment	(29,357	) 27,733	
Ending balance	64,262	85,964	
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$5,596,972</b>	<b>\$5,762,256</b>	

See Notes to Consolidated Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended	
	December 31,	
	2011	2010
<b>Cash Flows from Operating Activities</b>		
Net Income	\$154,222	\$174,995
Adjustments to reconcile Net Income to net cash provided by operations:		
Depreciation and amortization	75,160	77,975
Imputed interest for 2.5% convertible senior notes	29,023	27,248
Accretion and amortization of securities discounts and premiums, net	3,464	3,453
Stock-based compensation	38,436	42,325
Net losses (gains) on investments	39,209	(45,189
Net losses (gains) of consolidated investment vehicles	(5,809	) 5,238
Deferred income taxes	13,353	49,624



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Other	2,709	4,440	
Decrease (increase) in assets:			
Investment advisory and related fees receivable	55,993	(22,614	)
Net purchases of trading investments	(68,854	) (42,129	)
Other receivables	(10,877	) (23,972	)
Other assets	13,453	259	
Increase (decrease) in liabilities:			
Accrued compensation	(30,188	) (45,473	)
Deferred compensation	(36,733	) (9,135	)
Accounts payable and accrued expenses	2,980	(251	)
Other liabilities	34,041	(35,271	)
Net increase in operating assets and liabilities of consolidated investment vehicles, including cash	24,098	33,274	
Cash Provided by Operating Activities	333,680	194,797	
Cash Flows Provided by (Used for) Investing Activities			
Payments for fixed assets	(21,518	) (20,877	)
Restricted cash	6,995	—	
Purchases of investment securities	(4,509	) (7,277	)
Proceeds from sales and maturities of investment securities	4,883	8,150	
Purchases of investments by consolidated investment vehicles	(127,275	) (102,301	)
Proceeds from sales and maturities of investments by consolidated investment vehicles	144,679	106,539	
Cash Provided by (Used for) Investing Activities	3,255	(15,766	)
Cash Flows Used for Financing Activities			
Third-party distribution financing, net	—	(1,639	)
Repayment of principal on long-term debt	(811	) (3,323	)
Repurchases of common stock	(400,266	) (376,424	)
Issuance of common stock	1,931	13,499	
Dividends paid	(32,384	) (17,633	)
Net repayments of consolidated investment vehicles	(18,309	) (7,912	)
Net (redemptions/distributions paid to)/subscriptions received from noncontrolling interest holders	(16,016	) 776	
Cash Used for Financing Activities	(465,855	) (392,656	)
Effect of Exchange Rate Changes on Cash	(14,404	) 9,269	
Net Decrease in Cash and Cash Equivalents	(143,324	) (204,356	)
Cash and Cash Equivalents at Beginning of Period	1,375,918	1,465,888	
Cash and Cash Equivalents at End of Period	\$1,232,594	\$1,261,532	

See Notes to Consolidated Financial Statements

LEGG MASON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except per share amounts, unless otherwise noted)  
December 31, 2011  
(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. 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.

The nature of our business is such that the results of any interim period are not necessarily indicative of the results of a full year. The fiscal year-end condensed balance sheet was derived from audited financial statements and, in accordance with interim financial information standards, does not include all disclosures required by U.S. GAAP for annual financial statements. Certain amounts in prior period financial statements have been reclassified to conform to the current period presentation.

The information contained in the interim consolidated financial statements should be read in conjunction with our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Unless otherwise noted, all per share amounts for the nine months ended December 31, 2010, include both common shares of Legg Mason and shares issued in connection with the acquisition of Legg Mason Canada Inc., which were exchangeable into common shares of Legg Mason on a one-for-one basis at any time. During the quarter ended June 30, 2010, all outstanding exchangeable shares were converted into shares of Legg Mason common stock.

Terms such as “we,” “us,” “our,” and “company” refer to Legg Mason.

## 2. Significant Accounting Policies

### Consolidation

In accordance with financial accounting standards on consolidation, Legg Mason consolidates and separately identifies certain sponsored investment vehicles, the most significant of which is a collateralized loan obligation entity (“CLO”). The consolidation of these investment vehicles 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. Legg Mason also holds investments in certain consolidated sponsored investment funds and the change in the value of these investments, which is recorded in Other non-operating income (expense), is reflected in its Net Income and allocated to noncontrolling interests. Also, see Note 12 for additional information regarding the consolidation of investment vehicles.

### Business Realignment and Goodwill

In connection with a realignment of its executive management team during fiscal 2011, Legg Mason no longer manages its business in two operating segments (divisions), and during the June 2011 quarter, eliminated the previous

separation of the Americas and International divisions and combined them into one operating segment, Global Asset Management. Legg Mason believes this structure allows the Company to function as a global organization with a single purpose. Internal management reporting has been modified consistent with this realignment such that discrete financial information regularly received by the chief operating decision maker, our Chief Executive Officer, is at the consolidated Global Asset Management business level. As a result, the former Americas and International operating segments are no longer our reporting units, and subsequently, goodwill is recorded and evaluated at one Global Asset Management reporting unit level.

#### Restructuring Costs

In May 2010, Legg Mason's management committed to a plan to streamline its business model as further described in Note 11. The costs in connection with this plan primarily relate to employee termination benefits, incentives to retain employees during the transition period, charges for consolidating leased office space, and contract termination costs. Termination benefits, including severance, and retention incentives are recorded as Transition-related compensation in the Consolidated Statements of Income. These compensation items require employees to provide future service and are therefore expensed ratably over the required service period. Expense recognition of contractual lease payments may be accelerated when the related space is either permanently abandoned or subleased at a loss. Contract termination and other costs are expensed when incurred.

#### Income Taxes

During the quarter ended September 30, 2010, the United Kingdom ("U.K.") Finance Bill 2010 was enacted, which reduced the main U.K. corporate tax rate from 28% to 27%. In July 2011, The U.K. Finance Act 2011 (the "Act") was enacted. The Act further reduced the main U.K. corporate tax rate from 27% to 26% effective April 1, 2011, and from 26% to 25% effective April 1, 2012. The reductions in the U.K. corporate tax rate resulted in tax benefits of \$18,268 and \$8,878, recognized in the quarters ended September 30, 2011 and 2010, respectively, as a result of the revaluation of deferred tax assets and liabilities at the new rates. As a result of the revaluation adjustments, the effective tax rate for the nine months ended December 31, 2011, was reduced by 9.5 percentage points. Similarly, the effective tax rate for the nine months ended December 31, 2010, was reduced by 3.4 percentage points.

#### Noncontrolling interests

Noncontrolling interests related to certain consolidated investment vehicles ("CIVs") are classified as redeemable noncontrolling interests since investors in these funds may request withdrawals at any time. Redeemable noncontrolling interests as of and for the nine months ended December 31, 2011 and 2010, were as follows:

	Nine Months Ended December 31,	
	2011	2010
Balance, beginning of period	\$36,712	\$29,577
Net income attributable to redeemable noncontrolling interests	8,120	1,941
Net (redemptions/distributions paid to)/subscriptions received from noncontrolling interest holders	(16,016	) 776
Balance, end of period	\$28,816	\$32,294

#### Recent Accounting Developments

In December 2011, the Financial Accounting Standards Board ("FASB") updated the guidance on disclosures for offsetting assets and liabilities to require both gross and net information about instruments and transactions, including derivatives, repurchase and reverse repurchase and other arrangements that are eligible for offset in the balance sheet. The disclosures will be effective for Legg Mason in fiscal 2014, and are not expected to have a material impact on Legg Mason's consolidated financial statements.

In September 2011, the FASB updated the guidance on the annual goodwill test for impairment. The update permits companies to assess qualitative factors to determine if it is more likely than not that the fair value of the reporting unit

is less than its carrying amount as a basis for determining whether it is necessary to perform the currently required quantitative fair value assessment. This update will be effective for Legg Mason in fiscal 2013, if not adopted early. This update is not expected to have a material effect on its recorded goodwill, but Legg Mason is still evaluating its adoption.

### 3. Fair Values of Assets and Liabilities

The disclosures below include details of Legg Mason's assets and liabilities that are measured at fair value, excluding assets and liabilities of CIVs. See Note 12, 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, 2011			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets:</b>				
Cash equivalents <sup>(1)</sup> :				
Money market funds	\$749,342	\$—	\$—	\$749,342
Time deposits	—	45,150	—	45,150
Total cash equivalents	749,342	45,150	—	794,492
<b>Investment securities:</b>				
Trading investments relating to long-term incentive compensation plans <sup>(2)</sup>	94,875	—	—	94,875
Trading proprietary fund products and other investments <sup>(3)</sup>	169,147	79,293	—	248,440
Equity method investments relating to long-term incentive compensation plans, proprietary fund products and other investments <sup>(4)(5)</sup>	14,689	46,203	11,060	71,952
Total current investments	278,711	125,496	11,060	415,267
Available-for-sale investment securities	2,090	9,234	12	11,336
Investments in partnerships, LLCs and other	812	5,107	28,240	34,159
Equity method investments in partnerships and LLCs <sup>(4)</sup>	1,289	—	150,302	151,591
<b>Derivative assets:</b>				
Currency and market hedges	10,204	—	—	10,204
Other investments	—	—	121	121
	\$1,042,448	\$184,987	\$189,735	\$1,417,170
<b>Liabilities:</b>				
<b>Derivative liabilities:</b>				
Currency and market hedges	\$(1,402)	\$—	\$—	\$(1,402)
	As of March 31, 2011			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total

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Assets:

Cash equivalents<sup>(1)</sup>:

Money market funds	\$912,951	\$—	\$—	\$912,951
Time deposits	—	92,877	—	92,877
Total cash equivalents	912,951	92,877	—	1,005,828

Investment securities:

Trading investments relating to long-term incentive compensation plans <sup>(2)</sup>	120,107	—	—	120,107
Trading proprietary fund products and other investments <sup>(3)</sup>	90,123	102,562	11,378	204,063
Equity method investments relating to long-term incentive compensation plans, proprietary fund products and other investments <sup>(4)(5)</sup>	15,645	48,528	12,167	76,340
Total current investments	225,875	151,090	23,545	400,510
Available-for-sale investment securities	2,666	8,622	12	11,300
Investments in partnerships, LLCs and other	—	—	22,167	22,167
Equity method investments in partnerships and LLCs <sup>(4)</sup>	1,420	—	153,931	155,351
Derivative assets:				
Currency and market hedges	1,169	—	—	1,169
Other investments	—	—	270	270
	\$1,144,081	\$252,589	\$199,925	\$1,596,595

Liabilities:

Derivative liabilities:

Currency and market hedges	\$ (3,120 )	\$—	\$—	\$ (3,120 )
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(1) Cash equivalents include highly liquid investments with original maturities of 90 days or less. Cash investments in actively traded money market funds are measured at NAV and are classified as Level 1. Cash investments in time deposits are measured at amortized cost, which approximates fair value because of the short time between the purchase of the instrument and its expected realization, and are classified as Level 2.

(2) 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.

(3) Trading proprietary fund products and other investments primarily represent mutual funds that are invested approximately 53% and 47% in equity and debt securities as of December 31, 2011, respectively, and were invested approximately 60% and 40% in equity and debt securities as of March 31, 2011, respectively.

(4) Substantially all of our equity method investments are investment companies which record their underlying investments at fair value. Fair value 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.

(5) Includes investments under the equity method (which approximates fair value) relating to long-term incentive compensation plans of \$46,203 and \$48,528 as of December 31, 2011, and March 31, 2011, respectively, and proprietary fund products and other investments of \$25,749 and \$27,812 as of December 31, 2011, and March 31, 2011, respectively, which are classified as Investment securities on the Consolidated Balance Sheets.

In accordance with new accounting guidance adopted during the three months ended June 30, 2011, the changes in financial assets measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended December 31, 2011, are now presented on a gross basis in the tables below:

Value as of September 30, 2011	Purchases	Sales	Settlements/ Other	Transfers	Realized and unrealized gains/(losses), net	Value as of December 31, 2011
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Assets:							
Trading proprietary fund products and other investments	\$ 179	\$—	\$(165	) \$—	\$—	\$(14	) \$—
Equity method investments in proprietary fund products	11,605	—	—	—	—	(545	) 11,060
Investments in partnerships, LLCs and other	28,469	—	—	(10	) —	(219	) 28,240
Equity method investments in partnerships and LLCs	160,662	660	(1,869	) (1,370	) —	(7,781	) 150,302
Other investments	133	—	—	—	—	—	133
	\$ 201,048	\$ 660	\$(2,034	) \$(1,380	) \$—	\$(8,559	) \$ 189,735

	Value as of September 30, 2010	Purchases, sales, issuances and settlements, net	Transfers	Realized and unrealized gains/(losses), net	Value as of December 31, 2010
Assets:					
Trading proprietary fund products and other investments	\$ 18,063	\$(2,500	) \$ 350	\$ 1,133	\$ 17,046
Equity method investments in proprietary fund products	11,889	—	—	463	12,352
Investments in partnerships, LLCs and other	23,050	(99	) —	(1,742	) 21,209
Equity method investments in partnerships and LLCs	154,418	(437	) —	4,583	158,564