PRICE T ROWE GROUP INC
Form 10-Q
April 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
Commission File Number: 000-32191

T. ROWE PRICE GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	52-2264646
(State of incorporation)	(I.R.S. Employer Identification No.)

100 East Pratt Street, Baltimore, Maryland 21202
(Address, including Zip Code, of principal executive offices)
(410) 345-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. x 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 during the preceding 12 months. x Yes ¨ 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.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if 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 x No

The number of shares outstanding of the issuer's common stock ($.20 par value), as of the latest practicable date, April 23, 2018, is 242,137,493.

The exhibit index is at Item 6 on page 39.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	12/31/2017	3/31/2018
ASSETS		
Cash and cash equivalents	$ 1,902.7	$ 1,681.4
Accounts receivable and accrued revenue	565.3	593.6
Investments	1,477.3	2,095.1
Assets of consolidated T. Rowe Price investment products ($1,839.6 million at December 31, 2017, and $1,238.5 million at March 31, 2018, related to variable interest entities)	2,048.4	1,510.8
Property and equipment, net	652.0	650.2
Goodwill	665.7	665.7
Other assets	224.0	177.5
Total assets	$ 7,535.4	$ 7,374.3
LIABILITIES		
Accounts payable and accrued expenses	$ 216.2	$ 241.3
Liabilities of consolidated T. Rowe Price investment products ($39.5 million at December 31, 2017, and $27.8 million at March 31, 2018, related to variable interest entities)	55.9	53.2
Accrued compensation and related costs	108.5	187.1
Supplemental savings plan liability	269.3	284.5
Income taxes payable	68.3	159.8
Total liabilities	718.2	925.9
Commitments and contingent liabilities		
Redeemable non-controlling interests	992.8	546.5
STOCKHOLDERS’ EQUITY		
Preferred stock, undesignated, $.20 par value – authorized and unissued 20,000,000 shares	—	—
Common stock, $.20 par value—authorized 750,000,000; issued 245,111,000 shares at December 31, 2017, and 243,282,000 at March 31, 2018	49.0	48.7
Additional capital in excess of par value	846.1	654.6
Retained earnings	4,932.9	5,205.0
Accumulated other comprehensive loss	(3.6)	(6.4)
Total permanent stockholders’ equity	5,824.4	5,901.9
Total liabilities, redeemable non-controlling interests, and permanent stockholders’ equity	$ 7,535.4	$ 7,374.3

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per-share amounts)

	Three months ended	
	3/31/2017	3/31/2018
Revenues		
Investment advisory fees	$992.7	$1,189.2
Administrative, distribution, and servicing fees	139.9	138.8
Net revenues	1,132.6	1,328.0
Operating expenses		
Compensation and related costs	397.4	441.4
Distribution and servicing	59.8	70.3
Advertising and promotion	25.7	24.6
Product-related costs	38.6	42.1
Technology, occupancy, and facility costs	82.8	94.1
General, administrative, and other	56.6	71.7
Nonrecurring insurance recoveries related to Dell appraisal rights matter	(50.0)	—
Total operating expenses	610.9	744.2
Net operating income	521.7	583.8
Non-operating income		
Net gains on investments	64.8	14.4
Net gains on consolidated investment portfolios	48.9	.8
Other income	1.3	.9
Total non-operating income	115.0	16.1
Income before income taxes	636.7	599.9
Provision for income taxes	236.3	144.4
Net income	400.4	455.5
Less: net income attributable to redeemable non-controlling interests	14.5	1.8
Net income attributable to T. Rowe Price Group	$385.9	$453.7
Earnings per share on common stock of T. Rowe Price Group		
Basic	$1.56	$1.81
Diluted	$1.54	$1.77
Dividends declared per share	$.57	$.70

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Three months ended	
	3/31/2017	3/31/2018
Net income	$ 400.4	$ 455.5
Other comprehensive income (loss)		
Net unrealized holding gains on available-for-sale investments	18.3	—
Reclassification gains recognized in non-operating income upon dispositions, determined using average cost	(47.6)	—
Total net unrealized holding gains (losses) recognized in other comprehensive income	(29.3)	—
Currency translation adjustments		
Consolidated T. Rowe Price investment products - variable interest entities	7.0	16.2
Reclassification gain recognized in non-operating income upon deconsolidation of certain T. Rowe Price investment products	—	(3.1)
Consolidated T. Rowe Price investment products - variable interest entities	7.0	13.1
Equity method investments	(3.2)	3.8
Total currency translation adjustments	3.8	16.9
Other comprehensive income (loss) before income taxes	(25.5)	16.9
Net deferred tax benefits (income taxes)	10.7	(2.5)
Total other comprehensive income (loss)	(14.8)	14.4
Total comprehensive income	385.6	469.9
Less: comprehensive income attributable to redeemable non-controlling interests	16.6	8.8
Comprehensive income attributable to T. Rowe Price Group	$ 369.0	$ 461.1

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS(1)
(in millions)

	Three months ended	
	3/31/2017	3/31/2018
Cash flows from operating activities		
Net income	$400.4	$455.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization of property and equipment	35.6	36.9
Stock-based compensation expense	36.8	45.6
Net gains recognized on other investments	(62.0)	(2.6)
Investments in U.S. mutual funds held as trading to economically hedge supplemental savings plan liability	—	(12.9)
Net change in trading securities held by consolidated T. Rowe Price investment products	(566.3)	(189.4)
Other changes in assets and liabilities	344.0	187.9
Net cash provided by (used in) operating activities	188.5	521.0
Cash flows from investing activities		
Purchases of T. Rowe Price investment products	(.2)	(450.6)
Dispositions T. Rowe Price investment products	123.3	36.7
Net cash of T. Rowe Price investment products on consolidation (deconsolidation)	(46.5)	(21.5)
Additions to property and equipment	(46.9)	(36.7)
Other investing activity	(0.3)	(47.7)
Net cash provided by (used in) investing activities	29.4	(519.8)
Cash flows from financing activities		
Repurchases of common stock	(306.1)	(291.3)
Common share issuances under stock-based compensation plans	41.9	46.2
Dividends paid to common stockholders of T. Rowe Price Group	(140.9)	(174.8)
Net subscriptions received from redeemable non-controlling interest holders	551.1	177.8
Net cash provided by (used in) financing activities	146.0	(242.1)
Effect of exchange rate changes on cash and cash equivalents of consolidated T. Rowe Price investment products	(3.4)	1.3
Net change in cash and cash equivalents during period	360.5	(239.6)
Cash and cash equivalents at beginning of year	1,270.5	2,005.8
Cash and cash equivalents at end of period, including $50.2 million at March 31, 2017, and $84.8 million at March 31, 2018, held by consolidated T. Rowe Price investment products	$1,631.0	$1,766.2

(1) See note 12 for a supplementary consolidating cash flow schedule.

The accompanying notes are an integral part of these statements.
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(shares in thousands; dollars in millions)

	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity	Redeemable non-controlling interests
Balances at December 31, 2017	245,111	$ 49.0	$ 846.1	$ 4,932.9	$ (3.6)	$ 5,824.4	$ 992.8
Cumulative effect adjustment upon adoption of new financial instruments and accumulated other comprehensive income guidance on January 1, 2018[1]				22.4	(7.9)	14.5	
Reclassification adjustment of stranded tax benefits on currency translation adjustments upon adoption of new accumulated other comprehensive income guidance on January 1, 2018				2.3	(2.3)	—	
Balances at January 1, 2018	245,111	49.0	846.1	4,957.6	(13.8)	5,838.9	992.8
Net income	—	—	—	453.7	—	453.7	1.8
Other comprehensive income (loss), net of tax	—	—	—	—	7.4	7.4	7.0
Dividends declared	—	—	—	(174.9)	—	(174.9)	
Common stock-based compensation plans activity							
Shares issued upon option exercises	1,103	.2	44.9	—	—	45.1	—
Shares issued upon vesting of restricted stock units, net of shares withheld for taxes	6	—	(.4)	—	—	(.4)	—
Forfeiture of restricted awards	(4)	—	—	—	—	—	—
Stock-based compensation expense	—	—	45.6	—	—	45.6	—
Restricted stock units issued as dividend equivalents	—	—	.1	(.1)	—	—	
Common shares repurchased	(2,934)	(.5)	(281.7)	(31.3)	—	(313.5)	—
Net subscriptions into T. Rowe Price investment products	—	—	—	—	—	—	177.8
Net deconsolidations of T. Rowe Price investment products	—	—	—	—	—	—	(632.9)
Balances at March 31, 2018	243,282	$ 48.7	$ 654.6	$ 5,205.0	$ (6.4)	$ 5,901.9	$ 546.5

[1] Includes the reclassification of $1.7 million of stranded income taxes on available-for-sale investments resulting from the U.S. tax law changes enacted on December 22, 2017, from accumulated other comprehensive income to retained earnings.

The accompanying notes are an integral part of these statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – THE COMPANY AND BASIS OF PREPARATION.

T. Rowe Price Group (Price Group) derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the T. Rowe Price U.S. mutual funds (U.S. mutual funds) and other investment products, including separately managed accounts, subadvised funds, and other T. Rowe Price investment products. We also provide our investment advisory clients with related administrative services, including distribution, mutual fund transfer agent, accounting, and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage; and trust services.

Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

These unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require the use of estimates and reflect all adjustments that are, in the opinion of management, necessary to a fair statement of our results for the interim periods presented. All such adjustments are of a normal recurring nature. Actual results may vary from our estimates.

In order to increase transparency of operating expenses and better align expenses that have similar cost drivers, we have changed the presentation of certain line items of our income statement. In doing so, we have reclassified certain prior year amounts to conform to the 2018 presentation. These reclassifications are shown along with the impact of the new revenue recognition accounting standard adopted on January 1, 2018, in the New Accounting Guidance section below.

The unaudited interim financial information contained in these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in our 2017 Annual Report.

NEW ACCOUNTING GUIDANCE.

We adopted Accounting Standards Codification Topic 606: Revenue from Contracts with Customers (ASC 606), on January 1, 2018, using the retrospective method which required adjustments to be reflected as of January 1, 2016. In connection with the adoption of this guidance, we reevaluated all of our revenue contracts and determined that the new guidance does not change the timing of when we recognize revenue. However, we did conclude that certain fees earned from the U.S. mutual funds associated with our mutual fund transfer agent, accounting, shareholder servicing, and participant recordkeeping activities could no longer be reported net of the expenses paid to third parties that perform such services as we are deemed, under the guidance, to have control over the services before they are transferred to the U.S. mutual funds. No transition-related practical expedients were applied. Certain immaterial balance sheet reclassifications were made to conform to the 2018 presentation and all related note disclosures have been recast. Updates to our revenue recognition disclosures are included in Note 2 - Information about Receivables, Revenues, and Services and our updated revenue recognition accounting policy is included in the Summary of Significant Accounting Policies section below.

The impact of ASC 606 and other income statement reclassifications, as described above, on the condensed consolidated statements of income for each quarter of 2017 follows:

	Three months ended 3/31/2017				Three months ended 6/30/2017			
(in millions)	As previously reported	Change in Presentation	Impact of ASC 606	As reported herein	As previously reported	Change in Presentation	Impact of ASC 606	Recast
Revenues								
Investment advisory fees	$991.1	$ —	$ 1.6	$992.7	$1,043.9	$ —	$ 2.1	$1,046.0
Administrative, distribution, and servicing fees[1]	122.5	—	17.4	139.9	127.7	—	12.3	140.0
Net revenues	1,113.6	—	19.0	1,132.6	1,171.6	—	14.4	1,186.0
Operating expenses								
Compensation and related costs	397.4	—	—	397.4	403.8	—	—	403.8
Distribution and servicing	35.2	22.9	1.7	59.8	36.4	26.4	2.0	64.8
Advertising and promotion	25.6	—	.1	25.7	18.6	—	.1	18.7
Product-related costs	—	21.4	17.2	38.6	—	22.4	12.0	34.4
Technology, occupancy, and facility costs[2]	81.0	1.8	—	82.8	83.1	2.5	—	85.6
General, administrative, and other	102.7	(46.1)	—	56.6	122.1	(51.3)	.3	71.1
Nonrecurring insurance recoveries related to Dell appraisal rights matter	(50.0)	—	—	(50.0)	—	—	—	—
Total operating expenses	591.9	—	19.0	610.9	664.0	—	14.4	678.4
Net operating income	$521.7	$ —	$ —	$521.7	$507.6	$ —	$ —	$507.6

	Three months ended 9/30/2017				Three months ended 12/31/2017			
(in millions)	As previously reported	Change in Presentation	Impact of ASC 606	Recast	As previously reported	Change in Presentation	Impact of ASC 606	Recast
Revenues								
Investment advisory fees	$1,096.7	$ —	$ 2.2	$1,098.9	$1,156.0	$ —	$ 2.2	$1,158.2
Administrative, distribution, and servicing fees[1]	125.0	—	14.8	139.8	130.1	—	9.3	139.4
Net revenues	1,221.7	—	17.0	1,238.7	1,286.1	—	11.5	1,297.6
Operating expenses								
Compensation and related costs	417.4	—	—	417.4	446.3	—	—	446.3
Distribution and servicing	37.4	27.9	2.1	67.4	38.0	30.2	2.4	70.6
Advertising and promotion	14.0	—	—	14.0	33.8	—	.2	34.0
Product-related costs	—	23.4	14.5	37.9	—	26.0	9.1	35.1
Technology, occupancy, and facility costs[2]	84.0	2.2	.1	86.3	90.4	5.5	(.1)	95.8
General, administrative, and other	120.4	(53.5)	.3	67.2	146.6	(61.7)	(.1)	84.8
Total operating expenses	673.2	—	17.0	690.2	755.1	—	11.5	766.6
Net operating income	$548.5	$ —	$ —	$548.5	$531.0	$ —	$ —	$531.0

[1] The previously reported column aggregates the administrative fees and distribution and servicing fees lines presented in the income statement in prior year.

[2] The previously reported column aggregates the depreciation and amortization of property and equipment and occupancy and facility costs lines presented in the income statement in prior year.

We adopted Accounting Standards Update No. 2016-01 — Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities on January 1, 2018. This standard update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. After January 1, 2018, the guidance requires substantially all equity investments in non-consolidated entities to be measured at fair value with changes recognized in earnings, except for those accounted for using the equity method of accounting. As such, the guidance eliminated the available-for-sale investment category for equity securities, which required unrealized holding gains to be recognized in accumulated other comprehensive income. Upon adoption, we reclassified net unrealized holding gain of $7.9 million, net of taxes, related to our $597.1 million available-for-sale investment portfolio from accumulated other comprehensive income to retained earnings. Additionally, certain investments that do not have readily available market prices or quotations will be measured at fair value, under the new guidance, as we elected to use their calculated and reported net asset value (NAV) per share as a practical expedient for measuring their fair value in accordance with ASC 946. As such, we recognized a cumulative adjustment to retained earnings of $14.5 million to adjust investments previously accounted for as cost method investments to fair value on January 1, 2018. The corresponding increase in the investments' carrying value and related deferred taxes was of $19.5 million and $5.0 million, respectively. Our updated investments policy is included in the Summary of Significant Accounting Policies section below.

We adopted Accounting Standards Update No. 2018-02 — Reclassification of certain tax effects from accumulated other comprehensive income on January 1, 2018. This guidance permits tax effects stranded in accumulated other comprehensive income primarily resulting from the enactment of the U.S. tax reform bill originally known as the Tax Cuts and Jobs Act of 2017 to be reclassified to retained earnings either on January 1, 2018 or retrospectively. We elected to adopt the guidance on January 1, 2018 and reclassified $2.3 million of stranded tax benefits related to currency translation adjustments to retained earnings. The stranded income taxes related to our available-for-sale investment portfolio at December 31, 2017, were reclassified to retained earnings with the adoption of Accounting Standards Update No. 2016-01 on January 1, 2018. Our updated comprehensive income policy is included in the Summary of Significant Accounting Policies section below.

NEWLY ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 — Leases (Topic 842). The standard update seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standards update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and certain practical expedients are available. While we continue evaluating the full impact this standard will have on our financial position and results of operations, we currently expect the most significant impact will be the recognition of a right of use asset and lease liability on our consolidated balance sheets for each real-estate operating lease. We plan to adopt the standard on its effective date, January 1, 2019.

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our condensed consolidated statements, including those we have not yet adopted. We do not believe that any such guidance has or will have a material effect on our financial position or results of operations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

REVENUE RECOGNITION.

Our revenue is earned from investment advisory, administrative, and distribution services we provide to our clients. Each distinct service we promise in our agreements is considered a performance obligation and is the basis for determining when we recognize revenue. The fees are allocated to each distinct performance obligation and we recognize revenue when, or as, we satisfy our promises. The timing of when we bill our clients varies in accordance with agreed-upon contractual terms. For the majority of our agreements, billing occurs after we have recognized revenue which results in accounts receivable and accrued revenue. For an insignificant portion of our contracts, billing occurs in advance of providing services which results in deferred revenue within the accounts payable and accrued expenses line of our condensed consolidated balance sheets.

Taxes billed to our clients based on our fees for services rendered are not included in revenues.

Investment advisory fees

The majority of our investment advisory agreements, including those with the U.S. mutual funds, have a single performance obligation as the promised services are not separately identifiable from other promises in the agreements and, therefore, are not distinct. Substantially all performance obligations for providing advisory services are satisfied over time and revenue is recognized as time passes.

Investment advisory agreements with T. Rowe Price investment products regulated outside the U.S. generally have two performance obligations; one for investment management and one for distribution. For these agreements, we allocate the management fee to each performance obligation using our best estimate of the standalone fee of each of these services. The performance obligation for providing investment management services, like our other advisory contracts, is satisfied over time and revenue is recognized as time passes. The performance obligation for distribution is satisfied at the point in time when an investor makes an investment into the product. Accordingly, a portion of the investment advisory fees earned from these products relate to distribution performance obligations that were satisfied during prior periods. These distribution fees are reported within the investment advisory fees line of our condensed consolidated statements of income.

The management fee for our investment advisory agreements are based on our assets under management, which change based on fluctuations in financial markets, and represent variable consideration. Therefore, investment advisory fees are generally constrained, and excluded from revenue, until the asset values on which our client is billed are no longer subject to financial market volatility. Our assets under management are valued in accordance with valuation and pricing processes for each major type of investment. Fair values used in our processes are primarily determined from quoted market prices; prices furnished by dealers who make markets in such securities; or from data provided by an independent pricing service that considers yield or price of investments of comparable quality, coupon, maturity, and type. Investments for which market prices are not readily available are not a material portion of our total assets under management.

We provide all services to the U.S. mutual funds under contracts that are subject to periodic review and approval by the funds’ Boards. Regulations require that the funds’ shareholders also approve material changes to investment advisory contracts.

Administrative, distribution, and servicing fees

Administrative fees

The administrative services we provide include distribution, mutual fund transfer agent, accounting and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage, and trust services.

The administrative service agreements with the U.S. mutual funds for accounting oversight, transfer agency and recordkeeping services generally have one performance obligation as the promised services in each agreement are not separately identifiable from other promises in the agreement and, therefore, are not distinct. The fees for performing these services are generally equal to the costs incurred and represent variable consideration. The fees are generally constrained, and are recognized as revenue when costs are incurred to perform the services. These fees are generally offset by the costs incurred to provide such services.

Other administrative service agreements for participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage services, and trust services generally have one performance obligation as the promised services in each agreement are not separately identifiable from other performance obligations in the contract and, therefore, are not distinct. Our performance obligation in each agreement is satisfied over time and revenue is recognized as time passes. The fees for these services vary by contract and are both fixed and variable.

Distribution and servicing fees

The agreements for distribution and servicing fees earned from 12b-1 plans of the Advisor Class, R Class, and Variable Annuity II Class shares of the U.S. mutual funds have one performance obligation, as distribution services are not separately identifiable from shareholder servicing promises in the agreements and, therefore, are not distinct. Our performance obligation is satisfied at the point in time when an investor makes an investment into these share classes of the U.S. mutual funds. The fees for these distribution and servicing agreements are based on the assets under management in these shares classes, which change based on fluctuations in financial markets, and represent variable consideration. These fees are generally constrained, and excluded from revenue, until the asset values on which our client is billed are not subject to financial market volatility. Accordingly, the majority of the distribution and servicing revenue disclosed in Note 2 - information about receivables, revenues and services relates to distribution and servicing obligations that were satisfied during prior periods. These fees are offset entirely by the distribution and servicing costs paid to third-party financial intermediaries that source the assets of these share classes.

INVESTMENTS.

Investments held at fair value

Investments in T. Rowe Price investment products have been made for both general corporate investment purposes and to provide seed capital for newly formed products. Those investments that we do not consolidate are carried at fair value using the quoted closing NAV per share of each fund as of the balance sheet date. The underlying investments held by our consolidated T.

Rowe Price investment products are considered trading securities and are valued in accordance with the valuation and pricing policy used to value our assets under management which is further described in the Revenue Recognition policy above.

We elected to value our interest in investment partnerships for which market prices or quotations are not readily available, at fair value using the NAV per share as a practical expedient for measuring fair value.

Changes in the fair values of all these investments are reflected in non-operating income in our condensed consolidated statements of income.

Equity method investments

Equity method investments consist of investments in entities, including T. Rowe Price investment products, for which we have the ability to exercise significant influence over the operating and financial policies of the investee. The carrying values of these investments are adjusted to reflect our proportionate share of the investee's net income or loss, any unrealized gain or loss resulting from the translation of foreign-denominated financial statements into U.S. dollars, and dividends received. Our proportionate share of income or loss is included in non-operating income in our consolidated statements of income. As permitted under existing accounting guidance, we adopted a policy by which we recognize our share of UTI Asset Management Company Limited’s (UTI) earnings on a quarter lag as current financial information is not available in a timely manner. The basis difference between our carrying value and our proportionate share of UTI’s book value is primarily related to consideration paid in excess of the stepped-up basis of assets and liabilities on the date of purchase.

COMPREHENSIVE INCOME.

The components of comprehensive income are presented in a separate statement following our consolidated statements of income and include net income, the change in our currency translation adjustments, and prior to 2018, the change in net unrealized security holding gains (losses) on investments classified as available-for-sale. The currency translation adjustments result from translating our proportionate share of the financial statements of UTI, our equity method investment, and certain consolidated T. Rowe Price investment products into U.S. dollars. Assets and liabilities are translated into U.S. dollars using year-end exchange rates, and revenues and expenses are translated using weighted-average exchange rates for the period.

The changes in accumulated balances of each component of other comprehensive income, the deferred tax impacts of each component, and information about significant items reclassified out of accumulated other comprehensive income are presented in the notes to the financial statements. The notes also indicate the line item of our consolidated statements of income to which the significant reclassifications were recognized.

We reclassify income tax effects relating to currency translation adjustments to tax expense when there is a reduction in our ownership interest in the related investment. The amount of the reclassification depends on the investment’s accounting treatment before and after the change in ownership percentage. Prior to 2018, tax effects relating to each available-for-sale investment’s unrealized holding gain or loss, were reclassified upon the sale of the investment.

NOTE 2 – INFORMATION ABOUT RECEIVABLES, REVENUES, AND SERVICES.

Revenues earned during the first quarter of 2017 and 2018 under agreements with clients include:

	Three months ended 3/31/2017			
		Administrative, distribution, and servicing fees		
(in millions)	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues
U.S. mutual funds	$717.4	$86.3	$ 35.2	$838.9
Subadvised and separately managed accounts and other investment products	275.3	—	—	275.3
Other	—	18.4	—	18.4
	$992.7	$104.7	$ 35.2	$1,132.6

	Three months ended 3/31/2018			
		Administrative, distribution, and servicing fees		
(in millions)	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues
U.S. mutual funds	$832.9	$81.8	$ 36.6	$951.3
Subadvised and separately managed accounts and other investment products	356.3	—	—	356.3
Other	—	20.4	—	20.4
	$1,189.2	$102.2	$ 36.6	$1,328.0

The following table details the investment advisory fees earned from clients by their underlying asset class.

	Three months ended	
(in millions)	3/31/2017	3/31/2018
U.S. mutual funds		
Equity and blended assets	$594.2	$705.5
Fixed income and money market	123.2	127.4
	717.4	832.9
Subadvised and separately managed accounts and other investment products		
Equity and blended assets	227.9	297.0
Fixed income and money market	47.4	59.3
	275.3	356.3
Total	$992.7	$1,189.2

The following table summarizes the investment portfolios and assets under management on which we earn investment advisory fees.

	Average during the first quarter of		As of	
(in billions)	2017	2018	12/31/2017	3/31/2018

U.S. mutual funds				
Equity and blended assets	$421.0	$494.6	$480.5	$484.1
Fixed income and money market	115.5	127.4	125.8	128.8
	536.5	622.0	606.3	612.9
Subadvised and separately managed accounts and other investment products				
Equity and blended assets	231.6	308.2	291.9	304.8
Fixed income and money market	77.3	95.3	92.9	96.5
	308.9	403.5	384.8	401.3
Total	$845.4	$1,025.5	$991.1	$1,014.2

Investors that we serve are primarily domiciled in the U.S.; investment advisory clients outside the U.S. account for 5.8% and 6.0% of our assets under management at December 31, 2017, and March 31, 2018, respectively.

Total net revenues earned from T. Rowe Price investment products aggregate $945.0 million and $1,100.6 for the first quarter of 2017 and 2018, respectively. Accounts receivable from these products aggregates $365.3 million at December 31, 2017, and $388.8 million at March 31, 2018.

NOTE 3 – INVESTMENTS.

The carrying values of investments we do not consolidate are as follows:

(in millions)	12/31/2017	3/31/2018
Investments held at fair value		
T. Rowe Price investment products [(1)]	$ 692.1	$ 1,231.1
T. Rowe Price investment products designated as an economic hedge of supplemental savings plan liability	268.2	283.3
Investment partnerships and other investments[(2)]	78.0	95.2
Equity method investments		
T. Rowe Price investment products	277.4	316.7
26% interest in UTI Asset Management Company Limited (India)	155.8	163.2
Investment partnerships and other investments	4.8	4.6
U.S. Treasury note	1.0	1.0
Total	$ 1,477.3	$ 2,095.1

(1) Includes $597.1 million of investments at December 31, 2017, that were previously reported as available-for sale investments prior to the adoption of the new financial instruments guidance on January 1, 2018. Refer to Note 1 for more information.

(2) These investments at December 31, 2017 were carried at cost. Upon adoption of new financial guidance on January 1, 2018, these investments are carried at fair value using NAV per share as a practical expedient. Refer to Note 1 for more information.

The other investments at fair value include investment partnerships that are carried at fair value using their net asset value per share as a practical expedient. Our interests in these partnerships are generally not redeemable and are subject to significant restrictions on transferability. The underlying investments of these partnerships have contractual terms through 2029, though we may receive distributions of liquidating assets over a longer term. The investment strategies of these partnerships include growth equity, buyout, venture capital, and real estate.

Net gains on investments during the first quarter of 2018 includes $1.9 million of net unrealized losses recognized on investments held at fair value that were still held at March 31, 2018. For the first quarter of 2017, the majority of unrealized gains or losses on investments held at fair value are included and presented with other comprehensive income.

During the first three months of 2017 and 2018, certain T. Rowe Price investment products in which we provided initial seed capital at the time of formation were deconsolidated, as we no longer had a controlling interest. Depending on our ownership interest, we are now reporting our residual interests in these T. Rowe Price investment products as either an equity method investment or an investment held at fair value. Additionally, during the first three months of 2017 certain T. Rowe Price investment products that were being accounted for as equity method investments were consolidated, as we regained a controlling interest. The net impact of these changes on our condensed consolidated balance sheets and income statements as of the dates the portfolios were deconsolidated or reconsolidated is detailed below.

Three months ended

(in millions)	3/31/2017	3/31/2018
Net increase (decrease) in assets of consolidated T. Rowe Price investment products	$(1,035.9)	$(757.5)
Net increase (decrease) in liabilities of consolidated T. Rowe Price investment products	$(133.2)	$(5.2)
Net increase (decrease) in redeemable non-controlling interests	$(767.7)	$(632.9)
Gains (losses) recognized upon deconsolidation	$—	$3.1

The gains or losses recognized upon deconsolidation were the result of reclassifying currency translation adjustments accumulated on certain T. Rowe Price investment products with non-USD functional currencies from accumulated other comprehensive income to non-operating income.

VARIABLE INTEREST ENTITIES.

Our investments at December 31, 2017 and March 31, 2018, include interests in variable interest entities that we do not consolidate as we are not deemed the primary beneficiary. Our maximum risk of loss related to our involvement with these entities is as follows:

(in millions)	12/31/2017	3/31/2018
Investment carrying values	$ 129.2	$ 254.3
Unfunded capital commitments	38.8	37.2
Uncollected investment advisory and administrative fees	7.7	9.3
	$ 175.7	$ 300.8

The unfunded capital commitments totaling $38.8 million and $37.2 million at December 31, 2017 and March 31, 2018, respectively, relate primarily to the investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions may be called under certain circumstances.

NOTE 4 – FAIR VALUE MEASUREMENTS.

We determine the fair value of our cash equivalents and certain investments using the following broad levels of inputs as defined by related accounting standards:

Level 1 – quoted prices in active markets for identical securities.
Level 2 – observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.
Level 3 – unobservable inputs reflecting our own assumptions based on the best information available. We do not value any investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with our investments. There have been no transfers between the levels. The following table summarizes our investments that are recognized in our condensed consolidated balance sheets using fair value measurements determined based on the differing levels of inputs. This table excludes investments held by consolidated T. Rowe Price investment products which are presented separately on our condensed consolidated balance sheets and are detailed in Note 5.

	12/31/17		3/31/18	
(in millions)	Level 1	Level 2	Level 1	Level 2
Cash equivalents	$1,726.4	$ —	$1,488.9	$ —
T. Rowe Price investment products(1)	942.9	17.4	1,496.4	18.0
Total	$2,669.3	$ 17.4	$2,985.3	$ 18.0

(1) Includes $597.1 million of investments at December 31, 2017 that were previously reported as available-for sale investments prior to the adoption of new financial instruments guidance on January 1, 2018. Refer to Note 1 for more information.

At March 31, 2018, the reported investments held at fair value in Note 3 include $95.2 million of investments that are carried at fair value using the NAV per share as a practical expedient. These investments are not required to be included in the fair value hierarchy levels above.

NOTE 5 – CONSOLIDATED T. ROWE PRICE INVESTMENT PRODUCTS.

The T. Rowe Price investment products that we consolidate in our condensed consolidated financial statements are generally those products we provided initial seed capital at the time of their formation and have a controlling interest.

Our U.S. mutual funds are considered voting interest entities, while those regulated outside the U.S. are considered variable interest entities.

The following table details the net assets of the consolidated T. Rowe Price investment products:

	12/31/2017			3/31/2018		
(in millions)	Voting interest entities	Variable interest entities	Total	Voting interest entities	Variable interest entities	Total
Cash and cash equivalents[1]	$7.1	$96.0	$103.1	$17.7	$67.1	$84.8
Investments[2]	188.8	1,725.7	1,914.5	234.0	1,157.2	1,391.2
Other assets	12.9	17.9	30.8	20.6	14.2	34.8
Total assets	208.8	1,839.6	2,048.4	272.3	1,238.5	1,510.8
Liabilities	16.4	39.5	55.9	25.4	27.8	53.2
Net assets	$192.4	$1,800.1	$1,992.5	$246.9	$1,210.7	$1,457.6
Attributable to T. Rowe Price Group	$131.6	$868.1	$999.7	$180.0	$731.1	$911.1
Attributable to redeemable non-controlling interests	60.8	932.0	992.8	66.9	479.6	546.5
	$192.4	$1,800.1	$1,992.5	$246.9	$1,210.7	$1,457.6

[1]Cash and cash equivalents includes $6.2 million and $15.7 million at December 31, 2017 and March 31, 2018, respectively, of investments in T. Rowe Price money market mutual funds.
[2]Investments include $15.0 million and $45.3 million at December 31, 2017 and March 31, 2018, respectively, of T. Rowe Price investment products.

Although we can redeem our net interest in these T. Rowe Price investment products at any time, we cannot directly access or sell the assets held by these products to obtain cash for general operations. Additionally, the assets of these investment products are not available to our general creditors.

Since third party investors in these investment products have no recourse to our credit, our overall risk related to the net assets of consolidated T. Rowe Price investment products is limited to valuation changes associated with our net interest. We, however, are required to recognize the valuation changes associated with all underlying investments held by these products in our condensed consolidated statements of income, and disclose the portion attributable to third party investors as net income attributable to redeemable non-controlling interests.

The operating results of the consolidated T. Rowe Price investment products for the three months ended March 31, 2017 and 2018 are reflected in our condensed consolidated statements of income as follows:

	Three months ended					
	3/31/2017			3/31/2018		
(in millions)	Voting interest entities	Variable interest entities	Total	Voting interest entities	Variable interest entities	Total
Operating expenses reflected in net operating income	$(.3)	$(2.3)	$(2.6)	$(.3)	$(2.2)	$(2.5)
Net investment income reflected in non-operating income	5.3	43.6	48.9	(.8)	1.6	.8
Impact on income before taxes	$5.0	$41.3	$46.3	$(1.1)	$(.6)	$(1.7)
Net income attributable to T. Rowe Price Group	$3.9	$27.9	$31.8	$(.7)	$(2.8)	$(3.5)
Net income attributable to redeemable non-controlling interests	1.1	13.4	14.5	(.4)	2.2	1.8
	$5.0	$41.3	$46.3	$(1.1)	$(.6)	$(1.7)

The operating expenses of these consolidated products are reflected in other operating expenses. Operating expenses eliminated for the three months ended March 31, 2017 and 2018, were $.8 million and $1.7 million, respectively, against the investment advisory and administrative fees earned from these products. The net investment income reflected in non-operating income includes dividend and interest income and realized and unrealized gains and losses on the underlying securities held by the consolidated T. Rowe Price investment products.

The table below details the impact of these consolidated investment products on the individual lines of our condensed consolidated statements of cash flows (in millions) for the three months ended March 31, 2017 and 2018.

	Three months ended					
	3/31/2017			3/31/2018		
(in millions)	Voting interest entities	Variable interest entities	Total	Voting interest entities	Variable interest entities	Total
Net cash provided by (used in) operating activities	$(.6)	$(538.2)	$(538.8)	$(52.8)	$(148.2)	$(201.0)
Net cash provided by (used in) investing activities	(6.2)	(40.3)	(46.5)	—	(21.5)	(21.5)
Net cash provided by (used in) financing activities	3.2	570.1	573.3	63.4	139.5	202.9
Effect of exchange rate changes on cash and cash equivalents of consolidated T. Rowe Price investment products	—	(3.4)	(3.4)	—	1.3	1.3
Net change in cash and cash equivalents during period	(3.6)	(11.8)	(15.4)	10.6	(28.9)	(18.3)
Cash and cash equivalents at beginning of year	10.3	55.3	65.6	7.1	96.0	103.1
Cash and cash equivalents at end of period	$6.7	$43.5	$50.2	$17.7	$67.1	$84.8

The net cash provided by financing activities during the first quarter of 2017 and 2018 includes $22.2 million and $25.1 million, respectively, of net subscriptions we made into the consolidated T. Rowe Price investment products, net of dividends received. These cash flows were eliminated in consolidation.

FAIR VALUE MEASUREMENTS.

We determine the fair value of investments held by consolidated T. Rowe Price investment products using the following broad levels of inputs as defined by related accounting standards:

Level 1 – quoted prices in active markets for identical securities.
Level 2 – observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.
Level 3 – unobservable inputs reflecting our own assumptions based on the best information available. The value of investments using Level 3 inputs is insignificant.

These levels are not necessarily an indication of the risk or liquidity associated with these investment holdings. There have been no material transfers between the levels. The following table summarizes the investment holdings held by our consolidated T. Rowe Price investment products using fair value measurements determined based on the differing levels of inputs.

	12/31/17		3/31/18	
(in millions)	Level 1	Level 2	Level 1	Level 2
Assets				
Cash equivalents	$6.2	$.7	$15.7	$1.6
Equity securities	536.0	667.5	178.5	471.0
Fixed income securities	—	687.4	—	721.3
Other investments	1.3	22.3	1.1	19.3
	$543.5	$1,377.9	$195.3	$1,213.2
Liabilities	$(.1)	$(13.7)	$(.8)	$(6.7)

NOTE 6 – STOCKHOLDERS’ EQUITY.

Regular cash dividends declared per share during the first three months of 2017 and 2018 were $.57 and $.70, respectively.

At March 31, 2018, a liability of $22.2 million is included in accounts payable and accrued expenses for common stock repurchases that settled by April 3, 2018.

NOTE 7 – STOCK-BASED COMPENSATION.

STOCK OPTIONS.

The following table summarizes the status of, and changes in, our stock options during the first quarter of 2018.

	Options	Weighted-average exercise price
Outstanding at December 31, 2017	15,221,123	$ 66.98
Exercised	(1,492,576)	$ 59.69
Forfeited	(24,538)	$ 75.74
Expired	(14,364)	$ 71.15
Outstanding at March 31, 2018	13,689,645	$ 67.76
Exercisable at March 31, 2018	9,635,926	$ 64.42

RESTRICTED SHARES AND STOCK UNITS.

The following table summarizes the status of, and changes in, our nonvested restricted shares and restricted stock units during the first quarter of 2018.

	Restricted shares	Restricted stock units	Weighted-average fair value
Nonvested at December 31, 2017	473,115	5,556,911	$ 82.37
Time-based grants	—	4,741	$ 106.77
Vested	(1,420)	(10,294)	$ 72.43
Forfeited	(3,626)	(37,854)	$ 78.52
Nonvested at March 31, 2018	468,069	5,513,504	$ 82.43

Nonvested at March 31, 2018, includes 7,200 performance-based restricted shares and 406,412 performance-based restricted stock units. These performance-based restricted shares and units include 7,200 restricted shares and 291,958 restricted stock units for which the performance period has lapsed and the performance threshold has been met.

FUTURE STOCK-BASED COMPENSATION EXPENSE.

The following table presents the compensation expense (in millions) to be recognized over the remaining vesting periods of the stock-based awards outstanding at March 31, 2018. Estimated future compensation expense will change to reflect future grants of restricted stock awards and units, future option grants, changes in the probability of performance thresholds being met, and adjustments for actual forfeitures.

Second quarter 2018	$46.3
Third quarter 2018	45.7
Fourth quarter 2018	40.1
2019	95.9
2020 through 2023	79.5
Total	$307.5

NOTE 8 – EARNINGS PER SHARE CALCULATIONS.

The following table presents the reconciliation of net income attributable to T. Rowe Price Group to net income allocated to our common stockholders and the weighted-average shares that are used in calculating the basic and diluted earnings per share on our common stock. Weighted-average common shares outstanding assuming dilution reflect the potential dilution, determined using the treasury stock method, that could occur if outstanding stock options were exercised and non-participating stock awards vested.

(in millions)	Three months ended 3/31/2017	3/31/2018
Net income attributable to T. Rowe Price Group	$385.9	$ 453.7
Less: net income allocated to outstanding restricted stock and stock unit holders	8.7	10.6
Net income allocated to common stockholders	$377.2	$ 443.1
Weighted-average common shares		
Outstanding	242.1	244.3
Outstanding assuming dilution	245.5	249.8

The following table shows the weighted-average outstanding stock options that are excluded from the calculation of diluted earnings per common share as the inclusion of such shares would be anti-dilutive.

(in millions)	Three months ended 3/31/2017	3/31/2018
Weighted-average outstanding stock options excluded	9.5	—

NOTE 9 – OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME.

The following table presents the impact of the components of other comprehensive income or loss on deferred tax benefits (income taxes).

(in millions)	Three months ended 3/31/2017	3/31/2018
Net deferred tax benefits (income taxes) on:		
Net unrealized holding gains or losses	$(7.1)	$ —
Reclassification adjustments recognized in the provision for income taxes:		
Net gains realized on dispositions	18.6	—
Net deferred tax benefits (income taxes) on net unrealized holding gains or losses	11.5	—
Currency translation adjustments	(.8)	(3.3)
Reclassification adjustment recognized in the provision for income taxes upon deconsolidation of T. Rowe Price investment product	—	.8
Total deferred tax benefits (income taxes) on currency translation adjustments	(.8)	(2.5)
Total net deferred tax benefits (income taxes)	$10.7	$ (2.5)

The changes in each component of accumulated other comprehensive income (loss), including reclassification adjustments for the first quarter of 2018 are presented in the table below.

		Currency translation adjustments			
(in millions)	Net unrealized holding gains	Equity method investments	Consolidated T. Rowe Price investment products - variable interest entities	Total currency translation adjustments	Total
Balances at December 31, 2017	$ 7.9	$(30.6)	$ 19.1	$ (11.5)	$(3.6)
Reclassification of unrealized holding gains to retained earnings upon adoption of new financial instruments guidance(1)	(7.9)	—	—	—	(7.9)
Reclassification adjustment of stranded tax benefits on currency translation adjustments upon adoption of new accumulated other comprehensive income guidance		(6.4)	4.1	(2.3)	(2.3)
Balance at January 1, 2018	—	(37.0)	23.2	(13.8)	(13.8)
Other comprehensive income before reclassifications and income taxes	—	3.8	9.2	13.0	13.0
Reclassification adjustments recognized in non-operating income	—	—	(3.1)	(3.1)	(3.1)
	—	3.8	6.1	9.9	9.9
Net deferred tax income taxes	—	(.8)	(1.7)	(2.5)	(2.5)
Other comprehensive income (loss)	—	3.0	4.4	7.4	7.4
Balances at March 31, 2018	$ —	$(34.0)	$ 27.6		