LEGG MASON, INC.
Form 424B3
June 23, 2014
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying base prospectus are not an offer to sell the Notes nor do they seek an offer to buy the Notes in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 23, 2014

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated January 13, 2014)

$

$	**% Senior Notes due**
$	**% Senior Notes due**
$	**5.625% Senior Notes due 2044**

We are offering $ million aggregate principal amount of our % Senior Notes due (the Notes), $ million aggregate principal amount of our % Senior Notes due (the Notes, and together with the Notes, the New Notes) and $ million aggregate principal amount of our 5.625% Senior Notes due 2044 (the 2044 Notes, and together with the New Notes, the Notes).

The 2044 Notes will be fully fungible with, rank equally with and form a single series with, and have the same CUSIP number as the $400 million aggregate principal amount of our 5.625% Senior Notes due 2044, issued on January 22, 2014 (the Existing Notes). As a result, the outstanding principal amount of our 5.625% Senior Notes due 2044, after issuance of the 2044 Notes offered hereby, will be $ million.

The Notes and the Notes will mature on , and , , respectively, in each case unless earlier redeemed. We will pay interest on the New Notes semi-annually in arrears on each and , beginning . The 2044 Notes mature on January 15, 2044, unless earlier redeemed. We will pay interest on the 2044 Notes semi-annually in arrears on each January 15 and July 15, beginning July 15, 2014. The interest payment for the 2044 Notes on July 15, 2014 will include accrued interest from and including January 22, 2014. We have the option to redeem all or a portion of the Notes at any time, or from time to time, as described in this prospectus supplement.

The Notes will be our unsecured and unsubordinated obligations and will rank equally with all of our future unsecured senior indebtedness.

We do not intend to list the Notes on any securities exchange.

Investing in the Notes involves risks. See Risk Factors beginning on page S-7 of this prospectus supplement and in our other reports filed with the Securities and Exchange Commission (the SEC) pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), and which we incorporate by reference herein.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement and the accompanying base prospectus. Any representation to the contrary is a criminal offense.

	Per Note	Total	Per Note	Total	Per 2044 Note	Total
Public offering price	%(1)	$ (1)	%(1)	$ (1)	%(2)	$ (2)
Underwriting discount	%	$	%	$	%	$
Proceeds to Legg Mason, Inc. (before expenses)	%(1)	$ (1)	%(1)	$ (1)	%(2)	$ (2)

(1) Plus accrued interest from and including , 2014, if settlement occurs after that date.
(2) Plus accrued interest from and including January 22, 2014.

Delivery of the Notes in book-entry only form will be made through the facilities of The Depository Trust Company (DTC) and its participants, including Clearstream Banking, *société anonyme* and Euroclear Bank S.A./N.V. on or about , 2014.

Joint Book-Running Managers

Citigroup **J.P. Morgan**

, 2014

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We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus supplement, the accompanying base prospectus or any free writing prospectus prepared by us or incorporated by reference herein or therein. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement, the accompanying base prospectus and any free writing prospectus prepared by us do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement, the accompanying base prospectus or any free writing prospectus prepared by us nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

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This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of the Notes and also adds to and updates the information contained in the accompanying base prospectus and the documents incorporated by reference into the accompanying base prospectus. The second part is the accompanying base prospectus, which gives more general information, some of which may not apply to the Notes. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying base prospectus or any document that has previously been filed, on the other hand, the information in this prospectus supplement shall control.

Unless provided otherwise or the context otherwise requires, references in this prospectus supplement to the Company, Legg Mason, we, us and our are to Legg Mason, Inc. and to its predecessors and subsidiaries.

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FORWARD-LOOKING INFORMATION

Certain statements included in this prospectus supplement, the accompanying base prospectus and any documents incorporated by reference constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by any forward-looking statements. These forward-looking statements may contain information related, but not limited to:

- anticipated growth in revenues, margins or earnings per share;
- anticipated future net client cash flows, and uses for free cash;
- anticipated future performance of our business, including expected earnings per share in future periods;
- anticipated changes in our business or in the amount of client assets under management;
- anticipated expense levels, changes in expenses and expectations regarding financial market conditions;
- anticipated investment performance of, or levels of asset flows to, asset management products we manage;
- anticipated future investment performance of our affiliates;
- anticipated future transactions such as acquisitions; and
- anticipated performance of recent, pending and future acquisitions.

In some cases, you can identify forward-looking statements by terminology such as may, will, could, would, shou expect, plan, anticipate, intend, believe, estimate, predict, potential or continue or the negative of tho comparable terminology. These statements are only predictions. Actual events or results may differ materially due to a number of factors including, but not limited to:

- the volatility and general level of securities prices and interest rates;
- the competitive nature of the asset management industry;

changes in investor sentiment and confidence;

changes in domestic and foreign economic and market conditions;

changes in our total assets under management or their composition due to investment performance, client withdrawals or inflows, market conditions, competitive pressures or other reasons;

the mix of our assets under management among our affiliates and the revenue yield of our assets under management;

the relative investment performance of company-sponsored investment funds and other asset management products both in absolute terms and relative to competing offerings and market indices;

our ability to maintain investment management and administrative fees at current levels;

our ability to attract and retain key personnel;

the loss of key employees or principals of our current or future operating subsidiaries;

fluctuations in operating expenses due to variations in levels of compensation expense incurred as a result of changes in the number of total employees, competitive factors, changes in the percentages of revenues paid as compensation or other reasons;

the effect of current and future federal, state and foreign regulation of the asset management industry, including potential liability under applicable securities laws;

market, credit and liquidity risks associated with our investment management activities;

variations in the level of compensation expense incurred as a result of changes in the number of total employees, competitive factors, the percentages of revenues paid as compensation or other factors;

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variations in expenses and capital costs, including depreciation, amortization and other non-cash charges incurred by us to maintain our administrative infrastructure;

the impairment of acquired intangible assets and goodwill;

costs associated with any credit support activities we engage in with regard to funds managed by our subsidiaries;

potential restrictions on the business of, and withdrawal of capital from, certain of our subsidiaries due to net capital requirements;

unanticipated costs that may be incurred by Legg Mason from time to time to protect client goodwill, to otherwise support investment products or in connection with litigation or regulatory proceedings; and

the effect of any acquisitions and dispositions, including prior acquisitions.

We have no duty to update any of the forward-looking statements after the date of this prospectus supplement, the accompanying base prospectus or any documents incorporated by reference. In assessing these forward-looking statements you should carefully consider the factors discussed under the captions Risk Factors in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements and Risk Factors in our Quarterly Reports on Form 10-Q and our most recent Annual Report on Form 10-K.

We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risks emerge from time to time. Management cannot predict such new risks or the impact of such new risks on our businesses. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results.

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SUMMARY

This summary highlights selected information contained or incorporated by reference in the prospectus supplement and the accompanying base prospectus. You should read this entire prospectus supplement, the accompanying base prospectus and the documents incorporated by reference carefully before investing. You should also review Risk Factors to determine whether an investment in the Notes is appropriate for you.

Legg Mason, Inc.

Legg Mason is a global asset management company. Acting through our subsidiaries, we provide investment management and related services to institutional and individual clients, company sponsored mutual funds and other pooled investment vehicles. We offer these products and services directly and through various financial intermediaries. We have operations principally in the United States of America and the United Kingdom and also have offices in Australia, Bahamas, Brazil, Canada, Chile, China, Dubai, France, Germany, Italy, Japan, Poland, Singapore, Spain, Switzerland and Taiwan.

Legg Mason, Inc. was incorporated in Maryland in 1981 to serve as a holding company for its various subsidiaries. The predecessor companies to Legg Mason trace back to Legg & Co., a Maryland-based broker-dealer formed in 1899. Our subsequent growth has occurred primarily through internal expansion and the acquisition of asset management and broker-dealer firms. In December 2005, Legg Mason completed a transaction in which it sold its primary broker-dealer businesses to concentrate on the asset management industry.

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The Notes Offering

The summary below sets forth some of the principal terms of the Notes. Please read the Description of Notes section in this prospectus supplement and the Description of Debt Securities section in the accompanying prospectus for a more detailed description of the terms and conditions of the Notes.

Issuer	Legg Mason, Inc.
Notes	$ aggregate principal amount of % Senior Notes due (the Notes).
	$ aggregate principal amount of % Senior Notes due (the Notes, and together with the Notes, the New Notes).
	$ aggregate principal amount of 5.625% Senior Notes due 2044 (the 2044 Notes, and together with the New Notes, the Notes), which will be fully fungible with, rank equally with, form a single series with and have the same CUSIP number as the $400 million aggregate principal amount of our 5.625% Senior Notes due 2044, issued on January 22, 2014 (the Existing Notes).
Maturity of Notes	The Notes mature on , , the Notes mature on , and the 2044 Notes mature on January 15, 2044, unless, in each case, redeemed as described below under Description of Notes Optional Redemption.
Interest Rate	For the Notes: % per annum.
	For the Notes: % per annum.
	For the 2044 Notes: 5.625% per annum.
Interest Payment Dates	We will pay interest on the New Notes on each and , beginning on , 2014. We will pay interest on the 2044 Notes on each January 15 and July 15, beginning on July 15, 2014. The interest payment made with respect to the 2044 Notes on July 15, 2014 will include accrued interest from and including January 22, 2014.

Change of Control Repurchase Event	If a Change of Control Repurchase Event occurs with respect to a series of Notes, we must offer to repurchase all the Notes of such series at a price equal to 101% of the principal amount plus accrued and unpaid interest to the repurchase date. See Description of Notes Covenants Offer to Repurchase Upon a Change of Control Repurchase Event.
Limitations on Sales of Designated Subsidiaries	If, at the time when any of the 5.50% senior notes due 2019 (the 5.50% Notes) are outstanding, we or a subsidiary reduces our ownership of a class or series of capital stock in a Designated Subsidiary to below 80%, in certain circumstances, we will be required to redeem or repay debt secured by such capital stock, repay term loans under any Credit Agreement otherwise maturing within one year, invest in Additional Assets or offer to repay the Notes as described under Description of Notes Covenants Limitation on Dispositions of Capital Stock of Designated Subsidiaries. See Use of Proceeds.

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Limitations on Liens	We and our subsidiaries will not create, assume, incur or guarantee any indebtedness that is secured by a Lien on any Voting Stock or profit participating equity interests of any Significant Subsidiary, without providing that the Notes will be equally and ratably secured. See Description of Notes Covenants Limitations on Liens.
Ranking	The Notes will be our unsecured and unsubordinated obligations and will rank equally in right of payment with all of our other unsecured and unsubordinated senior indebtedness from time to time outstanding.
Optional Redemption	We have the option to redeem all or a portion of the Notes at any time, or from time to time, on no less than 30 nor more than 60 days notice mailed to holders thereof at the applicable make-whole price set forth in this prospectus supplement. See Description of Notes Optional Redemption.
Sinking Fund	None.
Use of Proceeds	We estimate that the net proceeds from this offering will be approximately $, after deducting the underwriting discount and offering expenses. We expect to use the net proceeds of this offering to repay, repurchase or redeem our 5.50% Notes. See Use of Proceeds.
No Listing	We do not intend to list the Notes on any securities exchange.
Trustee and Paying Agent	The Bank of New York Mellon.
Governing Law	New York law.
Certain Risk Factors	An investment in the Notes involves risks. Please refer to the risk factors beginning on page S-7 of this prospectus supplement and the risk factors included in the reports we file with the SEC pursuant to the Exchange Act which we incorporate by reference herein.

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Summary Consolidated Financial Data

The following table sets forth summary consolidated financial data. We derived the summary operating results for the fiscal years ended March 31, 2014, 2013 and 2012, and the summary balance sheet data as of March 31, 2014 and 2013 from our audited consolidated financial statements incorporated by reference in this prospectus supplement and the accompanying base prospectus. The summary operating results for the fiscal years ended March 31, 2011 and 2010, and the balance sheet data as of March 31, 2012, 2011 and 2010 are derived from our audited consolidated financial statements not included or incorporated by reference in this prospectus supplement or the accompanying base prospectus. This summary financial data is qualified by reference to, and should be read in conjunction with, our historical financial statements, including the notes thereto.

	Years Ended March 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(Dollars in thousands, unless otherwise noted)				
OPERATING RESULTS					
Operating revenues	$ 2,741,757	$ 2,612,650	$ 2,662,574	$ 2,784,317	$ 2,634,879
Operating expenses, excluding impairment	2,310,864	2,313,149	2,323,821	2,397,509	2,313,696
Impairment of intangible assets and goodwill		734,000			
Operating income (loss)	430,893	(434,499)	338,753	386,808	321,183
Other non-operating expense, net	(13,726)	(73,287)	(54,006)	(23,315)	(32,027)
Other non-operating income (loss) of consolidated investment vehicles, net	2,474	(2,821)	18,336	1,704	17,329
Fund support					23,171
Income (loss) before income tax provision (benefit)	419,641	(510,607)	303,083	365,197	329,656
Income tax provision (benefit)	137,805	(150,859)	72,052	119,434	118,676
Net income (loss)	281,836	(359,748)	231,031	245,763	210,980
Less: net income (loss) attributable to noncontrolling interests	(2,948)	(6,421)	10,214	(8,160)	6,623
Net income (loss) attributable to Legg Mason, Inc.	$ 284,784	$ (353,327)	$ 220,817	$ 253,923	$ 204,357
BALANCE SHEET					
Total assets	$ 7,111,349	$ 7,269,660	$ 8,555,747	$ 8,707,756	$ 8,622,632
Long-term debt[1]	1,039,264	1,144,954	1,136,892	1,201,868	1,170,334
Total stockholders equity	4,724,724	4,818,351	5,677,291	5,770,384	5,841,724
FINANCIAL RATIOS AND OTHER DATA					

Total debt to total capital[2]	18.0%	19.2%	19.6%	20.1%	19.6%
Assets under management (*in millions*) at period end	$ 701,774	$ 664,609	$ 643,318	$ 677,646	$ 684,549

[1] Includes current portion of long-term debt.
[2] Calculated based on total debt as a percentage of total capital (total stockholders equity plus total debt).

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RISK FACTORS

An investment in the Notes involves various material risks. Before making your investment decision, you should carefully review the following risk factors and the risks discussed under the caption Risk Factors in our Annual Report on Form 10-K filed with the SEC on May 23, 2014, which is incorporated by reference in this prospectus supplement and the accompanying base prospectus, or any similar caption in the documents that we subsequently file with the SEC that are deemed to be incorporated by reference in this prospectus supplement, and the accompanying base prospectus, and in any pricing term sheet that we provide you in connection with the offering of Notes pursuant to this prospectus supplement. You should also carefully review the other risks and uncertainties discussed in this prospectus supplement and the accompanying base prospectus, the documents incorporated and deemed to be incorporated by reference and in any such pricing term sheet.

Risks Relating to Our Business

Our Leverage May Affect Our Business and May Restrict Our Operating Results

At March 31, 2014, on a consolidated basis, we had approximately $1.0 billion in total indebtedness, excluding debt of consolidated investment vehicles for which we are not responsible, and total stockholders equity of $4.7 billion, and our goodwill and other intangible assets were $1.2 billion and $3.2 billion, respectively. As of March 31, 2014, we had $750 million of additional borrowing capacity available under our various credit agreements, subject to certain conditions and compliance with the covenants in our outstanding indebtedness. As a result of this substantial indebtedness, we are required to use a significant portion of our cash flow to service principal and interest on our debt, which will limit the cash flow available for other business opportunities. In addition, these servicing obligations would increase in the future if we incur additional indebtedness.

Our ability to make scheduled payments of principal, to pay interest, or to refinance our indebtedness and to satisfy our other debt obligations will depend upon our future operating performance, which may be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control and by a variety of factors specific to our business.

The level of our indebtedness could:

- limit our ability to obtain additional debt financing in the future or to borrow under our existing credit facilities (our principal bank debt facility requires that (i) our ratio of net debt (total debt less unrestricted cash in excess of working capital) to Consolidated EBITDA (as defined therein) not exceed 2.5 to 1, and (ii) our ratio of Consolidated EBITDA to total cash interest payments on certain Indebtedness (as defined therein) exceeds 4 to 1);

- limit cash flow available for general corporate purposes due to the ongoing cash flow requirements for debt service;

- limit our flexibility, including our ability to react to competitive and other changes in the industry and economic conditions; and place us at a competitive disadvantage compared to our competitors that have less debt.

As of March 31, 2014, under the terms of our bank credit agreement our ratio of net debt to Consolidated EBITDA was 1.2 to 1 and our ratio of Consolidated EBITDA to interest expense was 12.5 to 1, and, therefore, Legg Mason was in compliance with its bank financial covenants. If our net income significantly declines for any reason, it may be difficult to remain in compliance with these covenants. Similarly, to the extent that we spend our available cash for purposes other than repaying debt or acquiring businesses that increase our EBITDA, we will increase our net debt to Consolidated EBITDA ratio. Although there are actions that we may take if our financial covenant compliance becomes an issue, there can be no assurance that Legg Mason will remain in compliance with its bank debt covenants.

In addition, the terms of the $650 million senior notes that we issued in May 2012 and the $400 million Existing Notes that we issued in January 2014 provide limitations on our ability to sell, and the use of proceeds from any sale of, certain significant subsidiaries.

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Our access to credit on reasonable terms is also partially dependent on our credit ratings. If our credit ratings are downgraded, it will likely become more difficult and costly for us to access the credit markets or otherwise incur new debt.

Upon the occurrence of various events, such as a change of control, some or all of our outstanding debt obligations may come due prior to their maturity dates and may require payments in excess of their outstanding amounts, which in certain circumstances may be significant.

We May Support Money Market Funds to Maintain Their Stable Net Asset Values, or Other Products We Manage, Which Could Affect our Revenues or Operating Results

Approximately 21% of our assets under management as of March 31, 2014, consisted of assets in money market funds. Money market funds seek to preserve a stable net asset value. The money market funds our asset managers manage have always maintained this stable net asset value. However, there is no guarantee that this stable net asset value will be achieved in the future. Market conditions could lead to severe liquidity or security pricing issues, which could impact their net asset values. If the net asset value of a money market fund managed by our asset managers were to fall below its stable net asset value, we would likely experience significant redemptions in assets under management and reputational harm, which could have a material adverse effect on our revenues or net income.

If a money market fund s stable net asset value comes under pressure, we may elect, as we have done in the past, to provide credit, liquidity, or other support to the fund. We may also elect to provide similar or other support, including by providing liquidity to a fund, to other products we manage for any number of reasons. We are not legally required to support any money market fund or other product and there can be no assurance that any support would be sufficient to avoid an adverse impact on any product or investors in any product. A decision to provide support may arise from factors specific to our products or from industry-wide factors. If we elect to provide support, we could incur losses from the support we provide and incur additional costs, including financing costs, in connection with the support. These losses and additional costs could be material, and could adversely affect our earnings. If we were to take such actions we may also restrict our corporate assets, limiting our flexibility to use these assets for other purposes, and may be required to raise additional capital.

Poor Investment Performance Could Lead to a Loss of Assets Under Management and a Decline in Revenues

We believe that investment performance is one of the most important factors for the maintenance and growth of our assets under management. Poor investment performance, either on an absolute or relative basis, could impair our revenues and growth because:

- existing clients might withdraw funds in favor of better performing products, which would result in lower investment advisory and other fees;
- our ability to attract funds from existing and new clients might diminish; and
- negative absolute investment performance will directly reduce our managed assets.

In addition, in the ordinary course of our business we may reduce or waive investment management fees, or limit total expenses, on certain products or services for particular time periods to manage fund expenses, or for other reasons, and to help retain or increase managed assets. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced. From time to time over the last seven fiscal years, several of our key equity and fixed income asset managers generated poor investment performance, on a relative basis or an absolute basis, in certain products or accounts that they managed. These investment performance issues contributed to a significant reduction in their assets under management and revenues and a reduction in performance fees. Although our overall investment performance has improved over the last four fiscal years, we still face periodic performance issues with certain of our products, and there is typically a lag before improvements in investment performance produce a positive effect on asset flows. There can be no assurances as to when, or if, investment performance issues will cease to influence our assets under management and revenues.

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Assets Under Management May Be Withdrawn, Which May Reduce Our Revenues and Net Income

Our investment advisory and administrative contracts are generally terminable at will or upon relatively short notice, and investors in the mutual funds that we manage may redeem their investments in the funds at any time without prior notice. Institutional and individual clients can terminate their relationships with us, reduce the aggregate amount of assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, changes in investment preferences of clients, changes in our reputation in the marketplace, changes in management or control of clients or third-party distributors with whom we have relationships, loss of key investment management or other personnel and financial market performance. This risk is underscored by the fact that we have two international clients that represent approximately 12.2% (primarily liquidity assets) and 1.8%, respectively, of our total assets under management that generate approximately 3.1% and less than 0.1%, respectively, of our operating revenues. In the first quarter of fiscal 2015, we will begin reporting assets under advisement (AUA), and the assets of the second of these clients will be reclassified to AUA. In addition, in a declining securities market, the pace of mutual fund redemptions and withdrawal of assets from other accounts could accelerate. Poor investment performance generally or relative to other investment management firms tends to result in decreased purchases of fund shares, increased redemptions of fund shares, and the loss of institutional or individual accounts. Due in part to investment performance issues, we have experienced net outflows of equity assets under management for the last eight fiscal years. Though we experienced net inflows in our overall AUM in fiscal year 2014, there can be no assurance that inflows will continue in the future. During fiscal years 2014 and 2013 we had $8.3 billion in net client inflows, due to inflows in liquidity assets offset by outflows in equity and fixed income assets, and $11.7 billion in net client outflows, respectively. The fiscal year 2014 inflows included $12.1 billion in liquidity inflows and $1.2 billion in fixed income inflows, which were partially offset by $5.0 billion in equity outflows.

If We Are Unable to Maintain Our Fee Levels or If Our Asset Mix Changes, Our Revenues and Margins Could Be Reduced

Our profit margins and net income are dependent in significant part on our ability to maintain current fee levels for the products and services that our asset managers offer. There has been a trend toward lower fees in some segments of the asset management industry, and no assurances can be given that we will be able to maintain our current fee structure. Competition could lead to our asset managers reducing the fees that they charge their clients for products and services. See Competition in the Asset Management Industry Could Reduce our Revenues and Net Income. In addition, our asset managers may be required to reduce their fee levels, or restructure the fees they charge, because of, among other things, regulatory initiatives or proceedings that are either industry-wide or specifically targeted, or court decisions. A reduction in the fees that our asset managers charge for their products and services will reduce our revenues and could reduce our net income. These factors also could inhibit our ability to increase fees for certain products.

Our assets under management can generate very different revenues per dollar of managed assets based on factors such as the type of asset managed (equity assets generally produce greater revenues than fixed income assets), the type of client (institutional clients generally pay lower fees than other clients), the type of asset management product or service provided and the fee schedule of the asset manager providing the service. A shift in the mix of our assets under management from higher revenue-generating assets to lower revenue-generating assets may result in a decrease in our revenues even if our aggregate level of assets under management remains unchanged or increases. A decrease in our revenues, without a commensurate reduction in expenses, will reduce our net income. Although we experienced a shift in the mix of our assets under management during fiscal year 2014, during which our equity assets under management increased from $161.8 billion (24% of our total assets under management) on March 31, 2013 to $186.4 billion (27% of our total assets under management) on March 31, 2014, there can be no assurances that this shift will continue.

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Our Mutual Fund Management Contracts May Not Be Renewed, Which May Reduce Our Revenues and Net Income

A substantial portion of our revenue comes from managing U.S. mutual funds. We generally manage these funds pursuant to management contracts with the funds that must be renewed and approved by the funds boards of directors annually. A majority of the directors of each mutual fund are independent from us. Although the funds boards of directors have historically approved each of our management contracts, there can be no assurance that the board of directors of each fund that we manage will continue to approve the funds management contracts each year, or will not condition its approval on the terms of the management contract being revised in a way that is adverse to us. If a mutual fund management contract is not renewed, or is revised in a way that is adverse to us, it could result in a reduction in our revenues and, if our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

Unavailability of Appropriate Investment Opportunities Could Hamper Our Investment Performance or Growth

An important component of investment performance is the availability of appropriate investment opportunities for new client funds. If any of our asset managers is not able to find sufficient investments for new client assets in a timely manner, the asset manager s investment performance could be adversely affected. Alternatively, if one of our asset managers does not have sufficient investment opportunities for new funds, it may elect to limit its growth by reducing the rate at which it receives new funds. Depending on, among other factors, prevailing market conditions, the asset manager s investment style, regulatory and other limits and the market sectors and types of opportunities in which the asset manager typically invests (such as less capitalized companies and other more thinly traded securities in which relatively smaller investments are typically made), the risks of not having sufficient investment opportunities may increase when an asset manager increases its assets under management, particularly when the increase occurs very quickly. If our asset managers are not able to identify sufficient investment opportunities for new client funds, their investment performance or ability to grow may be reduced.

Changes in Securities Markets and Prices May Affect Our Revenues and Net Income

A large portion of our revenue is derived from investment advisory contracts with clients. Under these contracts, the investment advisory fees we receive are typically based on the market value of assets under management. Accordingly, a decline in the prices of securities generally may cause our revenues and income to decline by:

- causing the value of our assets under management to decrease, which would result in lower investment advisory and other fees;
- causing our clients to withdraw funds in favor of investments they perceive offer greater opportunity or lower risk, which would also result in lower investment advisory and other fees; or
- decreasing the performance fees earned by our asset managers.

There are often substantial fluctuations in price levels in the securities markets. These fluctuations can occur on a daily basis and over longer periods as a result of a variety of factors, including national and international economic and political events, broad trends in business and finance, and interest rate movements. Reduced securities market prices generally may result in reduced revenues from lower levels of assets under management and loss or reduction in advisory, incentive and performance fees. Periods of reduced market prices may adversely affect our profitability because fixed costs remain relatively unchanged. Because we operate in one industry, the business cycles of our asset managers may occur contemporaneously. Consequently, the effect of an economic downturn may have a magnified negative effect on our business.

In addition, as of March 31, 2014, a substantial portion of our invested assets consisted of securities and other seed capital investments. A decline in the value of equity, fixed income or other alternative securities could lower the value of these investments and result in declines in our non-operating income and net income. Increases or decreases in the value of these investments could increase the volatility of our earnings.

Changes in Interest Rates Could Have Adverse Effects on Our Assets Under Management

Increases in interest rates from their historically low present levels may adversely affect the net asset values of our assets under management. In addition, in a rising interest rate environment institutional investors may shift liquidity assets that we manage in pooled investment vehicles to direct investments in the types of assets in which the pooled vehicles invest in order to realize higher yields. Furthermore, increases in interest rates may result in reduced prices in equity markets. Conversely, decreases in interest rates could lead to outflows in fixed income or liquidity assets that we manage as investors seek higher yields. Any of these effects could lower our assets under management and revenues and, if our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

The current historically low interest rate environment affects the yields of money market funds, which are based on the income from the underlying securities less the operating costs of the funds. With short-term interest rates at or near zero, the operating expenses of money market funds may become greater than the income from the underlying securities. We are monitoring the industry wide low yields of money market funds, which may result in negative yields, particularly in Europe, which could have a significant adverse effect on the industry in general and our liquidity business in particular. During the past three fiscal years, we voluntarily waived certain fees or assumed expenses of money market funds for competitive reasons, such as to maintain competitive yields. These fee waivers resulted in approximately $110.0 million in reduced investment advisory revenues in fiscal year 2014, and have continued into the present fiscal year.

Competition in the Asset Management Industry Could Reduce Our Revenues and Net Income

The asset management industry in which we are engaged is extremely competitive and we face substantial competition in all aspects of our business. We compete with numerous international and domestic asset management firms and broker-dealers, mutual fund complexes, hedge funds, commercial banks, insurance companies, other investment companies and other financial institutions. Many of these organizations offer products and services that are similar to, or compete with, those offered by our asset managers and have substantially more personnel and greater financial resources than we do. Some of these competitors have proprietary products and distribution channels that make it more difficult for us to compete with them. In addition, many of our competitors have long-standing and established relationships with distributors and clients. From time to time, our asset managers also compete with each other for clients and assets under management. Our ability to compete may be adversely affected if, among other things, our asset managers lose key employees or, as has been the case for certain of the products managed by our asset managers, under-perform in comparison to relevant performance benchmarks or peer groups.

The asset management industry has experienced from time to time the entry of many new firms, as well as significant consolidation as numerous asset management firms have either been acquired by other financial services firms or ceased operations. In many cases, this has resulted in firms with greater financial resources than we have. In addition, a number of heavily capitalized companies, including commercial banks and foreign entities have made investments in and acquired asset management firms. Access to mutual fund distribution channels has also become increasingly competitive. All of these factors could make it more difficult for us to compete, and no assurance can be given that we will be successful in competing and growing our assets under management and business. If clients and potential clients decide to use the services of competitors, it could reduce our revenues and growth rate, and if our revenues decrease without a commensurate reduction in our expenses, our net income will be reduced. In this regard, there are a number of asset classes and product types that are not well covered by our current products and services. When these asset classes or products are in favor with investors, we will miss the opportunity to gain the assets under management that are being invested in these assets and face the risk of our managed assets being withdrawn in favor of competitors who provide services covering these classes or products. For example, to the extent there is a trend in the asset management business in favor of passive products such as index and exchange-traded funds, it favors our competitors who provide those products over active managers like our asset managers. In addition, our asset managers are not typically the lowest cost provider of asset management services. To the extent that we compete on the basis of price in any of

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our businesses, we may not be able to maintain our current fee structure in that business, which could adversely affect our revenues and net income. In the retail separately managed account program business, there has been a trend toward more open programs that involve more asset managers who provide only investment models which the financial institution sponsor s employees use to allocate assets. A number of the programs for which we provide services have followed this trend, and additional programs could do so in the future. This trend could result in assets under management retention issues due to additional competition within the programs, particularly for products with performance issues, and reduced management fees, which are typical results of providing investment models rather than advisory services.

Our business is asset management. As a result, we may be more affected by trends and issues affecting the asset management industry, such as industry-wide regulatory issues and inquiries, publicity about, and public perceptions of the industry and asset management industry market cycles, than other financial services companies that have more diversified businesses.

We May Engage in Strategic Transactions That Could Create Risks

As part of our business strategy, we regularly review, are currently reviewing, and from time to time have discussions with respect to potential strategic transactions, including potential acquisitions, dispositions, consolidations, joint ventures or similar transactions and lift-outs of portfolio management teams, some of which may be material. There can be no assurance that we will find suitable candidates for strategic transactions at acceptable prices, have sufficient capital resources to accomplish our strategy, or be successful in entering into agreements for desired transactions. In addition, these transactions typically involve a number of risks and present financial, managerial and operational challenges, including:

- adverse effects on our reported earnings per share in the event acquired intangible assets or goodwill become impaired;
- existence of unknown liabilities or contingencies that arise after closing; and
- potential disputes with counterparties.

Acquisitions, related transactions and completed acquisitions, including the acquisition of QS Investors and the integration over time of Batterymarch and LMGAA into QS Investors, pose the risk that any business we acquire may lose customers or employees or could underperform relative to expectations. We could also experience financial or other setbacks if transactions encounter unanticipated problems, including problems related to execution or integration. Following the completion of an acquisition, we may have to rely on the seller to provide administrative and other support, including financial reporting and internal controls, to the acquired business for a period of time. There can be no assurance that the seller will do so in a manner that is acceptable to us.

Strategic transactions typically are announced publicly even though they may remain subject to numerous closing conditions, contingencies and approvals and there is no assurance that any announced transaction will actually be consummated. The failure to consummate an announced transaction could have an adverse effect on us. Future transactions may also further increase our leverage or, if we issue equity securities to pay for acquisitions, dilute the holdings of our existing stockholders.

Regulatory Matters May Negatively Affect Our Business and Results of Operations

Our business is subject to regulation by various regulatory authorities that are charged with protecting the interests of our clients. We could be subject to civil liability, criminal liability, or sanction, including revocation of our subsidiaries registrations as investment advisers, revocation of the licenses of our employees, censures, fines, or temporary suspension or permanent bar from conducting business, if we violate such laws or regulations. Any such liability or sanction could have a material adverse effect on our financial condition, results of operations, reputation, and business prospects. In addition, the regulatory environment in which we operate frequently changes and has seen significant increased regulation in recent years. In particular, we have incurred, and will continue to incur, significant additional costs as a result of regulatory changes affecting U.S. mutual funds and changes to European mutual fund regulation, including the European Union directive on Undertakings for Collective Investments in Transferable Securities directives and the Alternative Investment Fund Managers directive. The Federal Reserve Board has adopted final regulations related to non-Bank Systemically Important Financial Institutions (SIFIs). It has been suggested that large mutual funds, including money market funds, should be designated as SIFIs, which would result in increased regulatory oversight, including enhanced capital, liquidity, leverage, stress testing, resolution planning, and risk management requirements. In addition, the SEC has proposed additional reforms to money market fund regulation, including additional disclosure and reporting requirements, enhanced diversification requirements, enhanced stress testing, required liquidity fees and redemption gates under certain conditions and a minimum floating net asset value. If Legg Mason, any Legg Mason Fund or any of our affiliates is deemed a SIFI or the proposed SEC reforms were adopted, we would be subject to additional operational and compliance costs. We also are spending time and money to comply with the requirements of the U.S. Foreign Account Tax Compliance Act. Our business and results of operations can also be adversely affected by federal, state and foreign regulatory issues and proceedings.

We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. For example, we note that the U.S. federal government has made, and has proposed further, significant changes to the regulatory structure of the financial services industry, and we expect to spend time and resources to comply with these regulatory changes.

We also note that recommendations for regulatory reform in the liquidity asset management business include the possible imposition of banking and banking-like regulations on liquidity funds and their managers or of ending the stable-value characteristic of these funds. Currently, SEC and European regulatory officials have stated publicly that they are considering proposing additional regulations for money market funds that are designed to address certain concerns arising from the 2007-2008 financial crisis. The SEC has recently promulgated new rules under a section of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) that require entities that provide certain types of advice to, or on behalf of, or solicit municipal entities or certain other persons, to register with the SEC and the Municipal Securities Rulemaking Board (MSRB) as municipal advisors, thereby subjecting those entities to new or additional regulation by the SEC and MSRB. Other changes under consideration include a possible requirement that money market funds have a capital buffer, the imposition of redemption holdbacks, and a requirement that money market funds convert to a floating net asset value. European regulatory officials are considering multiple proposed regulations intended to improve retail investor protection. Among the proposals under consideration are changes in regulation to address custodial liability, remuneration of managers, efficient portfolio management techniques and extraordinary liquidity management tools. The European regulatory officials are also considering new regulatory measures that will apply to European money market funds, including new investor disclosure requirements for all packaged retail investment products. If adopted, these proposals, which also have been publicly supported by a number of banking officials, could significantly impact the money market fund industry. Depending on the nature of any changes adopted, the new regulations could, among other things, reduce the attractiveness of money market funds to retail and institutional investors and raise the costs of being in this business. We continue to monitor this area carefully and, if new regulations are adopted, we will consider how they affect our liquidity management business and take action, as appropriate. Any of these revisions could adversely affect our liquidity asset management business and our results of operations.

Instances of criminal activity and fraud by participants in the asset management industry, disclosures of trading and other abuses by participants in the financial services industry and significant governmental intervention and investment in the financial markets and financial firms have led the U.S. government and regulators to increase the rules and regulations governing, and oversight of, the U.S. financial system. This activity has resulted in changes to the laws and regulations governing the asset management industry and more aggressive enforcement of the existing laws and regulations. For example, the Dodd-Frank Act provides for a comprehensive overhaul of the financial services regulatory environment and requires the adoption of extensive regulations and many regulatory decisions to be implemented. Certain provisions of the Dodd-Frank Act will, and other provisions may, require us to change or impose new limitations on the manner in which we conduct business, will or may increase regulatory compliance burdens, and may have unintended adverse consequences

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on the liquidity or structure of the financial markets. The ongoing revisions to the laws and regulations governing our business, and their counterparts internationally, are an ongoing process. The cumulative effect of these actions may result in increased expenses, or lower management or other fees, and therefore adversely affect the revenues or profitability of our business.

If Our Reputation is Harmed, We Could Suffer Losses in Our Business, Revenues and Net Income

Our business depends on earning and maintaining the trust and confidence of clients and other market participants, and the resulting good reputation is critical to our business. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries, employee misconduct and rumors, among other things, can substantially damage our reputation, even if they are baseless or satisfactorily addressed. Regulatory sanctions or adverse litigation results can also cause substantial damage to our reputation. Any damage to our reputation could impede our ability to attract and retain clients and key personnel, and lead to a reduction in the amount of our assets under management, any of which could have a material adverse effect on our revenues and net income.

Failure to Properly Address Conflicts of Interest Could Harm Our Reputation, Business and Results of Operations

Our business depends on earning and maintaining the trust and confidence of clients and other market participants, and the resulting good reputation is critical to our business. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries, employee misconduct and rumors, among other things, can substantially damage our reputation, even if they are baseless or satisfactorily addressed. Regulatory sanctions or adverse litigation results can also cause substantial damage to our reputation. Any damage to our reputation could impede our ability to attract and retain clients and key personnel, and lead to a reduction in the amount of our assets under management, any of which could have a material adverse effect on our revenues and net income.

Our Business Involves Risks of Being Engaged in Litigation and Liability That Could Increase Our Expenses and Reduce Our Net Income

Many aspects of our business involve substantial risks of liability. In the normal course of business, our asset managers are from time to time named as defendants or co-defendants in lawsuits, or are involved in disputes that involve the threat of lawsuits, seeking substantial damages. We are also involved from time to time in governmental and self-regulatory organization investigations and proceedings, including the regulatory proceedings discussed in Note 8 of Notes to Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K filed on May 23, 2014. Similarly, the investment funds that our asset managers manage are subject to actual and threatened lawsuits and governmental and self-regulatory organization investigations and proceedings, any of which could harm the investment returns or reputation of the applicable fund or result in our asset managers being liable to the funds for any resulting damages. There has been an increased incidence of litigation and regulatory investigations in the asset management industry in recent years, including customer claims as well as class action suits seeking substantial damages. Any litigation can increase our expenses and reduce our net income.

Insurance May Not Be Available on a Cost Effective Basis to Protect Us From Liability

We face the inherent risk of liability related to litigation from clients, third-party vendors or others and actions taken by regulatory agencies. To help protect against these potential liabilities, we purchase insurance in amounts, and against risks, that we consider appropriate, where such insurance is available at prices we deem acceptable. There can be no assurance, however, that a claim or claims will be covered by insurance or, if covered, will not exceed the limits of available insurance coverage, that any insurer will remain solvent and will meet its obligations to provide us with coverage or that insurance coverage will continue to be available with sufficient limits at a reasonable cost. Insurance costs are impacted by market conditions and the risk profile of the insured, and may increase significantly over relatively short periods. In addition, certain insurance coverage may not be available or may only be available at prohibitive costs. Renewals of insurance policies may expose us to additional costs through higher premiums or the assumption of higher deductibles or co-insurance liability.

Failure to Comply With Contractual Requirements or Guidelines Could Result in Liability and Loss of Assets Under Management, Both of Which Could Cause Our Net Income to Decline

The asset management contracts under which we manage client assets, including contracts with investment funds, often specify guidelines or contractual requirements that we are obligated to observe in providing asset management services. A failure to comply with these guidelines or requirements could result in damage to our reputation, liability to the client or the client reducing its assets under our management, any of which could cause our revenues and net income to decline. This risk is increased by the trend toward customized, specialized mandates seen by many of our asset managers, which tends to result in more complex mandates that are more difficult to administer.

Loss of Key Personnel Could Harm Our Business

We are dependent on the continued services of a number of our key asset management personnel and our management team, including our Chief Executive Officer. The loss of any of such personnel without adequate replacement could have a material adverse effect on us. Moreover, since certain of our asset managers contribute significantly to our revenues and net income, the loss of even a small number of key personnel at these businesses could have a disproportionate impact on our overall business. Additionally, we need qualified managers and skilled employees with asset management experience in order to operate our business successfully. The market for experienced asset management professionals is extremely competitive and is increasingly characterized by the movement of employees among different firms. Due to the competitive market for asset management professionals and the success of some of our employees, our costs to attract and retain key employees are significant and will likely increase over time. From time to time, we may work with key employees to revise revenue sharing agreements and other employment-related terms to reflect current circumstances, including in situations where a revenue sharing agreement may result in insufficient revenues being retained by the subsidiary. In addition, since the investment track record of many of our products and services is often attributed to a small number of individual employees, and sometimes one person, the departure of one or more of these employees could cause the business to lose client accounts or managed assets, which could have a material adverse effect on our results of operations and financial condition. If we are unable to attract and retain qualified individuals or our costs to do so increase significantly, our operations and financial results would be materially adversely affected.

The Soundness of Other Financial Institutions Could Adversely Affect Our Business

Volatility in the markets in the recent past has highlighted the interconnection of the global markets and demonstrated how the deteriorating financial condition of one institution may materially and adversely impact the performance of other institutions. Legg Mason, and the funds and accounts that we manage, has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial industry. We, and the funds and accounts we manage, may be exposed to credit, operational or other risk in the event of a default by a counterparty or client, or in the event of other unrelated systemic failures in the markets.

Our Business is Subject to Numerous Operational Risks

We face numerous operational risks related to our business on a day-to-day basis. Among other things, we must be able to consistently and reliably obtain securities pricing information, process trading activity, process client and investor transactions and provide reports and other customer service to our clients, investors and distributors. Failure to keep current and accurate books and records can render us subject to disciplinary action by governmental and self-regulatory authorities, as well as to claims by our clients. A portion of our software is licensed from and supported by outside vendors upon whom we rely to prevent operating system failure. A suspension or termination of these licenses or the related support, upgrades and maintenance could cause system delays or interruption. If any of our financial, portfolio accounting or other data processing systems, or the systems of third parties on whom we rely, do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, or those of third parties on whom we rely, we could suffer an impairment to our liquidity, a financial loss, a disruption of our businesses, liability to clients, regulatory problems or damage to our reputation. These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more offices (as occurred with one of our New York City offices when the office building in which it was located was flooded by Hurricane Sandy in October 2012). In addition, our operations are dependent upon information from, and communications with, third parties, and operational problems at third parties may adversely affect our ability to carry on our business.

Our operations rely on the effectiveness of our information and cyber security policies, procedures and capabilities to provide secure processing, storage and transmission of confidential and other information in our computer systems, networks and mobile devices and on the computer systems, networks and mobile devices of third parties on whom we rely. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software, networks and mobile devices, and those of third parties on whom we rely, may be vulnerable to cyber-attacks, sabotage, unauthorized access, computer viruses, worms or other malicious code, and other events that have a security impact. If one or more of such events occur, it potentially could jeopardize our or our clients , employees or counterparties confidential and other information processed and stored in, and transmitted through, our or third party computer systems, networks and mobile devices, or otherwise cause interruptions or malfunctions in our, our clients , our counterparties or third parties operations. As a result, we could experience material financial loss, loss of competitive position, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could cause a decline in the Company s earnings. We may be required to spend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against fully or not fully covered through any insurance that we maintain.

We depend on our headquarters, the offices of our subsidiaries, our operations centers and third-party providers for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our asset managers, or an event disrupting the ability of our employees to perform their job functions, including terrorist attacks or a disruption involving electrical communications, transportation or other services used by us or third parties with whom we conduct business, directly affecting our headquarters, the offices of our subsidiaries, our operations centers or the travel of our sales, client service and other personnel, may have a material adverse impact on our ability to continue to operate our business without interruption. Although we have disaster recovery and business continuity programs in place, there can be no assurance that these will be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses.

Potential Impairment of Goodwill and Intangible Assets Could Increase Our Expenses and Reduce Our Assets

Determining goodwill and intangible assets, and evaluating them for impairment, requires significant management estimates and judgment, including estimating value and assessing life in connection with the allocation of purchase price in the acquisition creating them. Our goodwill and intangible assets may become impaired as a result of any number of factors, including losses of investment management contracts or declines in the value of managed assets. Any impairment of goodwill or intangibles could have a material adverse effect on our results of operations. For example, during the fiscal year ended March 31, 2013, we incurred aggregate impairment charges of $734 million ($508 million, net of taxes) primarily relating to domestic mutual fund contracts and Permal funds-of-hedge funds contracts. Changes in the assumptions underlying projected cash flows from the assets or reporting unit, resulting from market conditions, reduced assets under management or other factors, could result in an impairment of any of these assets.

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The domestic mutual fund contracts asset acquired in the 2005 acquisition of the Citigroup Asset Management (CAM) business of $2,106 million and the Permal funds-of-hedge funds contracts assets of $698 million account for approximately 65% and 20%, respectively, of our indefinite-life intangible assets, while the goodwill in our reporting unit aggregates $1.2 billion.

The carrying values of domestic mutual fund contracts and Permal funds-of-hedge funds contracts assets were both written down to their respective fair values as a result of the aforementioned impairments during the fiscal year ended March 31, 2013. As a result, decreases in our cash flow projections or increases in the discount rates, resulting from actual results or changes in assumptions, resulting from market conditions, reduced assets under management, less favorable operating margins, lower yielding asset mixes, and other factors, may result in further impairments of these assets. There can be no assurances that continued market uncertainty or asset outflows, or other factors, will not produce an additional impairment in either asset, particularly for the Permal funds-of-hedge funds contracts asset.

During the three months ended March 31, 2014, no triggering events required that we consider impairment tests of any of our intangible assets or goodwill subsequent to our annual December 31 impairment tests. We completed our annual impairment tests of goodwill and indefinite-life intangible assets as of December 31, 2013, and determined that there was no impairment in the value of these assets.

Cash flows through December 31, 2013, from our Permal funds-of-hedge funds contracts marginally exceeded previous projections, such that the related carrying value continues to be sensitive to changes in actual results or the assumptions noted above. For our domestic mutual fund contracts, cash flows through December 31, 2013 exceeded previous projections, but the related carrying value remains sensitive to changes in actual results or the assumptions noted above. Therefore, market decreases, outflows or other changes in actual results or the assumptions noted above may result in an impairment of the Permal fund-of-hedge-funds or the domestic mutual fund contracts assets. A modest change with respect to the Permal fund-of-hedge-funds contracts could lead to impairment of the related asset, while a larger change with respect to the domestic mutual funds contracts would be required to impair the related asset. As of December 31, 2013, the date of our most recent annual testing, the estimated fair value of the Permal funds-of-hedge funds contracts assets and the domestic mutual funds contracts assets exceeded their related carrying values by approximately $70 million and $450 million, respectively. Assuming all other factors remain the same, our actual results and/or changes in assumptions for the domestic mutual fund contracts and Permal funds-of-hedge fund contracts cash flow projections over the long term would have to deviate approximately 20% and 10% or more, respectively, or the discount rate would have to increase from 14.0% to 16.0% and 15.5% to 16.5%, respectively, for the assets to be deemed impaired. Cash flows from our reporting unit and other indicators of the reporting unit s fair value have improved through December 31, 2013, such that its estimated fair value exceeds its aggregate carrying value by a material amount at December 31, 2013. Changes in the assumptions underlying projected cash flows from the reporting unit or its EBITDA multiple, resulting from market conditions, reduced assets under management or other factors, could still result in an impairment of goodwill.

There can be no assurances that continued market uncertainty or asset outflows, or other factors, will not produce an additional impairment. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Intangible Assets and Goodwill in our Annual Report on Form 10-K for the year ended March 31, 2014.

Our Deferred Tax Assets May Not Be Fully Realizable

As of March 31, 2014, we had approximately $763 million in U.S. federal deferred tax assets, which represent tax benefits that we expect to realize in future periods. Under accounting rules, we are required to recognize a charge to earnings to reduce our deferred tax assets if it is determined that any future tax benefits are not likely to be realized before they expire. Deferred tax assets generated in U.S. jurisdictions resulting from net operating losses generally expire 20 years after they are generated. Those resulting from foreign tax credits generally expire 10 years after they are generated. In order to realize these future tax benefits, we estimate that we must generate approximately $3.8 billion in future U.S. earnings, approximately $673 million of which must be in the form of foreign source income, before the benefits expire. There can be no assurances that we will achieve this level of earnings before some portion of these tax benefits expires. In addition, our belief that we will likely be able to realize these future tax benefits is based in part upon our estimates of the timing of other differences in revenue and expense recognition between tax returns and financial statements and our understanding of the application of tax regulations, which may prove to be incorrect for any number of reasons, including future changes in tax or accounting regulations. If we are required to recognize a charge to earnings to reduce our deferred tax assets, the charge may be material to our earnings or financial condition.

Performance-Based Fee Arrangements May Increase the Volatility of Our Revenues

A portion of our total revenues is derived from performance fees. Our asset managers earn performance fees under certain client agreements if the investment performance in the portfolio meets or exceeds a specified benchmark. If the investment performance does not meet or exceed the investment return benchmark for a particular period, the asset manager will not generate a performance fee for that period and, if the benchmark is based on cumulative returns, the asset manager s ability to earn performance fees in future periods may be impaired. As of March 31, 2014, approximately 6% of our assets under management were in accounts or products that are eligible to earn performance fees. We earned $107.1 million, $98.6 million and $49.5 million in performance fees during fiscal years 2014, 2013 and 2012, respectively. An increase or decrease in performance fees, or in performance-based fee arrangements with our clients, could create greater fluctuations in our revenues.

We Are Exposed to a Number of Risks Arising From Our International Operations

Our asset managers operate in a number of jurisdictions outside of the United States on behalf of international clients. We have offices in numerous countries and many cross border and local proprietary funds that are domiciled outside the United States. Our international operations require us to comply with the legal requirements of various foreign jurisdictions, expose us to the political consequences of operating in foreign jurisdictions and subject us to expropriation risks, expatriation controls and potential adverse tax consequences which, among other things, make it more difficult to repatriate to the United States the cash that we generate outside the U.S. At March 31, 2014, our total cash and cash equivalents of $858 million included approximately $306 million held by our foreign subsidiaries, some of which, if repatriated, may be subject to material tax effects. Furthermore, despite controls and other actions reasonably designed to mitigate these risks, our international operations expose us to risks arising from Legg Mason s potential responsibility for actions of third party agents and other representatives of our business operating outside our primary jurisdictions of operation. Our foreign business operations are also subject to the following risks:

- difficulty in managing, operating and marketing our international operations;
- fluctuations in currency exchange rates which may result in substantial negative effects on assets under management and revenues in our U.S. dollar-based financial statements; and
- significant adverse changes in foreign political, economic, legal and regulatory environments.

We Rely Significantly on Third Parties to Distribute Mutual Funds and Certain Other Products

Our ability to market and distribute mutual funds and certain other investment products that we manage is significantly dependent on access to third-party financial intermediaries that distribute these products. These distributors are generally not contractually required to distribute our products, and typically offer their clients various investment products and services, including proprietary products and services, in addition to and in competition with our products and services. Relying on third-party distributors also exposes us to the risk of increasing costs of distribution, as we compensate them for selling our products and services in amounts that are agreed between them and us but which, in many cases, are largely determined by the distributor. There has been a recent trend of increasing fees paid to certain distributors in the asset management business, and our distribution costs have increased as a result. While we have worked to diversify our distribution network, historically, many of the Legg Mason Funds were principally sold through the retail brokerage business of Citigroup. The retail business created by the combination of Morgan Stanley s brokerage unit and Citigroup s Smith Barney unit into Morgan Stanley Wealth Management remains a significant intermediary selling the

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Legg Mason Funds. While the third-party distributors are compensated for distributing our products and services, there can be no assurances that we will be successful in distributing our products and services through them. In addition, mergers and other corporate transactions among distributors may affect our distribution relationships. For example, we are not able to predict the long-term effect of the Morgan Stanley Wealth Management business on our ability to continue to successfully distribute our funds and other products through it, or the costs of doing so. If we are unable to distribute our products and services successfully, it will adversely affect our revenues and net income, and any increase in distribution-related expenses could adversely affect our net income.

Our Funds-of-Hedge Funds Business Entails a Number of Risks

Permal operates in the international funds-of-hedge funds business. The funds-of-hedge funds business typically involves clients being charged fees on two levels at the funds-of-funds level and at the underlying funds level. These fees may include management fees and performance fees. While we are not currently aware of any issues in this area, there is no assurance that Permal will not be forced to change its fee structures by competitive or other pressures or that Permal s fee structures will not hamper its growth. Furthermore, Permal, consistent with other funds-of-hedge funds managers, has experienced a trend in recent years of outflows in business from retail high net worth clients and inflows from institutional clients. There can be no assurance that Permal will be able to continue its transition into the institutional business, or that this transition will not affect the revenues or profits of Permal. In addition, Permal may generate significant performance fees from time to time, which could increase the volatility of our revenues. See Performance-Based Fee Arrangements May Increase the Volatility of our Revenues. Because Permal operates in the funds-of-hedge funds business globally, it is exposed to a number of regulatory authorities and requirements in different jurisdictions.

We May Incur Charges Related to Leased Facilities

We continue to be exposed to the risk of incurring charges related to subleases or vacant space for several of our leased offices. As of March 31, 2014, our future commitments from third parties under non-cancellable subleases were approximately $173 million, which in total, net of reserves, effectively offsets obligations under our leases for the properties. As part of an evaluation of our real estate needs, we abandoned certain leased real estate during fiscal years 2013 and 2014. During fiscal year 2014, we subleased a portion of the space and continue to pursue sub-tenants for the remaining vacant space. As of March 31, 2014, our total future lease commitments for office space that we vacated and are seeking to sublease was approximately $30 million, of which we reserved approximately $7 million through lease charges to our earnings during the fiscal year ended March 31, 2014. Under generally accepted accounting principles, at the time a sublease is entered into or space is deemed permanently abandoned, we must incur a charge equal to the present value of the amount by which the commitments under the lease exceeds the amount due, or amount expected to be received, under a sublease. As a result, in a period of declining commercial lease markets, we are exposed to the risk of incurring charges relating to any premises we are seeking to sublease resulting from longer periods to identify sub-tenants and reduced market rent rates leading to new sub-tenants paying less in rent than we are paying under our lease. Also, if a sub-tenant defaults on its sublease, we would likely incur a charge for the rent that we will incur during the period that we expect would be required to sublease the premises and any reduction in rent that current market rent rates lead us to expect a new sub-tenant will pay. This risk is underscored by the fact that one sub-tenant represents approximately half of the future sublease rent commitments described above. There can be no assurance that we will not recognize additional lease-related charges, which may be material to our results of operations.

Risks Relating to the Notes

Our Debt Is Structurally Subordinated to the Debt and Other Liabilities of Our Subsidiaries

The Notes are obligations exclusively of Legg Mason. We are a holding company and, accordingly, substantially all of our operations are conducted through our subsidiaries. As a result, our debt is structurally subordinated to all existing and future debt, trade creditors, and other liabilities of our subsidiaries. Our rights,

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and hence the rights of our creditors, to participate in any distribution of assets of any subsidiary upon its liquidation or reorganization or otherwise would be subject to the prior claims of that subsidiary s creditors, except to the extent that our claims as a creditor of such subsidiary may be recognized. The indenture governing the Notes does not restrict our or our subsidiaries ability to incur indebtedness, including secured indebtedness, to pay dividends or make distributions on, or redeem or repurchase our equity securities, or to engage in highly leveraged transactions that would increase the level of our indebtedness.

We Depend Upon Our Subsidiaries to Service Our Debt

Our cash flow and our ability to service our debt, including the Notes, is dependent upon the earnings of our subsidiaries. Our subsidiaries are separate and distinct legal entities. They have no obligation to pay any amounts due under the Notes or to provide us with funds for our payment obligations. Payment to us by our subsidiaries will also be contingent upon our subsidiaries earnings and other business considerations.

We May Not Have Sufficient Funds to Finance a Change of Control Offer, If One is Required

The source of funds that will be required to repurchase Notes in the event of a Change of Control Repurchase Event will be our available cash or cash generated from our subsidiaries operations or other potential sources, including borrowings, sales of assets or sales of equity. We cannot assure you that sufficient funds from such sources will be available at the time of any Change of Control Repurchase Event to make required repurchases of Notes tendered. The occurrence of a change of control constitutes an event of default under our revolving credit facility entitling the lenders to accelerate any indebtedness outstanding under the facility and to terminate the facility. Our future debt instruments may contain similar restrictions and provisions. If the holders of the Notes exercise their right to require us to repurchase Notes upon a Change of Control Repurchase Event, the financial effect of this repurchase could cause a default under future debt instruments, even if the Change of Control Repurchase Event itself would not cause a default. It is possible that we will not have sufficient funds at the time of the Change of Control Repurchase Event to make the required repurchase of our other debt and the Notes.

We May Issue Additional Notes

Under the terms of the indenture that governs the Notes, we may from time to time without notice to, or the consent of, the holders of the Notes, create and issue additional debt securities of a new or existing series. If we issue additional notes, the new notes will be equal in rank to the outstanding Notes in all material respects, and the new notes may be consolidated and form a single series with the outstanding Notes for all purposes under the indenture, including waivers, amendments, redemptions and offers to repurchase, and have the same terms as to status or otherwise as the Notes. Such additional notes will be fungible with the outstanding Notes for United States federal income tax purposes or will be issued under a separate CUSIP number.

There Is No Public Market for the Notes

We can give no assurances concerning the liquidity of any market that may develop for the Notes offered hereby, the ability of any investor to sell the Notes or the price at which investors would be able to sell them. If a market for the Notes does not develop, investors may be unable to resell the Notes for an extended period of time, if at all. If a market for the Notes does develop, it may not continue or it may not be sufficiently liquid to allow holders to resell any of the Notes. Consequently, investors may not be able to liquidate their investment readily, and lenders may not readily accept the Notes as collateral for loans.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $, after deducting the underwriting discount and offering expenses. We expect to use the net proceeds of this offering to repay, repurchase or redeem our 5.50% Notes.

We expect to take charges of approximately $107 million in July 2014 when our 5.50% Notes will be retired, consisting of a make-whole premium to call the 5.50% Notes and non-cash amounts of approximately $9 million associated with existing deferred charges and original issue discount.

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CAPITALIZATION

The following table sets forth a summary of our consolidated cash and cash equivalents and capitalization as of March 31, 2014, actual and as adjusted to give effect to this offering, after deducting underwriting discounts and commissions and estimated transaction expenses payable by us, and the repayment, repurchase or redemption of our 5.50% Notes as described under Use of Proceeds. This table should be read in conjunction with our consolidated financial statements incorporated by reference in this prospectus supplement.

	March 31, 2014	
	Actual	As Adjusted
	(unaudited, dollars in thousands)	
Cash and equivalents:		
Cash and cash equivalents	$ 858,022	$
Restricted cash	13,455	13,455
Subtotal	871,477	
Cash and cash equivalents of Consolidated Investment Vehicles	56,372	56,372
Total Cash and Equivalents	$ 927,849	$
Long-term debt:		
5.50% Senior Notes	$ 645,042	$
5.625% Senior Notes	393,784	
% Senior Notes		
% Senior Notes		
Other term loans	438	438
Subtotal	1,039,264	
Long-Term Debt of Consolidated Investment Vehicles	79,179	79,179
Total Long-Term Debt[(1)]	1,118,443	
Redeemable Noncontrolling Interests	45,144	45,144
Stockholders equity:		
Common stock, par value $.10; authorized 500,000,000 shares; issued and as adjusted: 117,173,639 shares	11,717	11,717
Additional paid-in capital	3,148,396	3,148,396
Employee stock trust	(29,922)	(29,922)
Deferred compensation employee stock trust	29,922	29,922
Retained earnings	1,526,662	
Accumulated other comprehensive income net	37,949	37,949
Total stockholders equity	4,724,724	
Total capitalization	$ 5,888,311	$

(1) Includes current portion of long-term debt.

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DESCRIPTION OF NOTES

Each series of New Notes offered hereby will be issued under a separate supplemental indenture to an indenture providing for the issuance of senior debt securities in series dated as of January 22, 2014 (the senior base indenture), between Legg Mason, Inc. and The Bank of New York Mellon, as trustee (the trustee). In this description, the senior base indenture and the supplemental indentures establishing the terms of the Notes are collectively referred to as the indenture. Each of the Notes, the Notes and the 2044 Notes will be issued as a separate series of our senior debt securities under the indenture. The following summaries of certain provisions of the indenture do not purport to be complete, and are subject to, and are qualified in their entirety by reference to, all the provisions of the indenture, including the definitions in the indenture of certain terms. In this description, we, our, us and Legg Mason refer to Legg Mason, Inc. and not to any subsidiary of Legg Mason.

The 2044 Notes will have the same terms as the Existing Notes and, together with such Existing Notes, make up a single series of notes that are fully fungible with each other, will have the same CUSIP number and will be treated as a single series for all purposes under the indenture, including waivers, amendments, redemptions and offers to repurchase. As a result, the outstanding principal amount of this series of notes, after issuance of the 2044 Notes, will be $ million. This description describes terms of both the Existing Notes and the 2044 Notes offered hereby, which together constitute a single series of notes separate from any other series to be issued under the senior base indenture and the applicable supplemental indenture, including the New Notes.

This description also describes the terms of the New Notes. As a result, any reference to the Notes contained in this description collectively refers to the New Notes and the 2044 Notes, unless the context indicates otherwise.

The Notes will mature on , , the Notes will mature on , , and the 2044 Notes will mature on January 15, 2044, in each case unless redeemed as described below under Optional Redemption. The New Notes will bear interest from and including , 2014 at the rates per annum shown on the cover of this prospectus supplement. Interest on the New Notes will be payable semi annually in arrears on each and (each such day, an interest payment date for New Notes), beginning on , , to the persons in whose names the New Notes are registered at the close of business on the 15th calendar day (whether or not a business day) immediately preceding the respective interest payment date for New Notes. The Notes and the Notes issued in this offering will be initially issued in aggregate principal amounts of $ and $, respectively.

The 2044 Notes will bear interest from and including January 22, 2014 at the rate of 5.625% per annum. Interest on the 2044 Notes will be payable semi-annually in arrears on each January 15 and July 15 (each such day, an interest payment date for Existing Notes), beginning on July 15, 2014, to the persons in whose names the 2044 Notes are registered at the close of business on the 15th calendar day (whether or not a business day) immediately preceding the respective interest payment date for Existing Notes. The interest payment made with respect to the 2044 Notes on July 15, 2014 will include accrued interest from and including January 22, 2014. Interest on the Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Notes will be issued in book-entry only form through the facilities of DTC in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

Each series of Notes will be subject to defeasance upon satisfaction of certain conditions described under Description of Debt Securities Defeasance in the accompanying base prospectus.

We do not intend to list any series of Notes on any securities exchange.

Ranking

The Notes will be our unsecured and unsubordinated obligations and will rank equally in right of payment with all of our other unsecured and unsubordinated senior indebtedness from time to time outstanding. Our rights and the rights of our creditors, including holders of Notes, to participate in the distribution of assets of any of our subsidiaries upon such subsidiary s liquidation or recapitalization, or otherwise, will be subject to the prior claims of such subsidiary s preferred equity holders and creditors, except to the extent that we may ourselves be a creditor with recognized claims against such subsidiary.

Issuance of Additional Debt Securities

Under the terms of the indenture, we may from time to time without notice to, or the consent of, the holders of the Notes, create and issue additional debt securities of a new or existing series. If we issue additional debt securities, the new debt securities will be equal in rank to the outstanding Notes in all material respects. We may reopen an outstanding series of debt securities or issue a new series of debt securities.

In the case of a reopening of the offering of a series of Notes, we may, without notice to or consent of the holders or beneficial owners of the Notes of such series, issue in a separate offering additional notes of such series having the same ranking, interest rate, maturity and other terms as the Notes of such series (except for the issue date and public offering price and, if applicable, the initial interest payment date and initial interest accrual date). No additional notes of such series may be issued if an event of default has occurred and is continuing with respect to the Notes of such series. Any additional notes of such series, together with the original Notes of such series, will constitute a single series under the indenture. Such additional notes will be fungible with the outstanding Notes of such series for United States federal income tax purposes or will be issued under a separate CUSIP number.

Optional Redemption

We have the option to redeem all or a portion of the Notes of each series at any time, or from time to time, on no less than 30 nor more than 60 days notice mailed to holders thereof, at a redemption price equal to the greater of (a) 100% of the principal amount of the Notes of such series to be redeemed or (b) the sum of the present values of the Remaining Scheduled Payments (as defined below) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus % (basis points) in the case of the Notes, % (basis points) in the case of the Notes or 0.30% (30 basis points) in the case of the 2044 Notes, in each case plus accrued and unpaid interest, if any, on the principal amount being redeemed to, but excluding, the redemption date.

Treasury Rate means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity (computed as of the third business day immediately preceding such redemption date) of the applicable Comparable Treasury Issue, assuming a price for such Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the applicable Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes of the relevant series to be redeemed.

Independent Investment Banker means any of the Reference Treasury Dealers appointed by us.

Comparable Treasury Price means, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date.

Reference Treasury Dealer Quotation means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the applicable Comparable Treasury Issue (expressed as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer as of 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Reference Treasury Dealer means each of Citigroup Global Markets Inc. and J.P. Morgan Securities LLC and their respective successors and any other nationally recognized investment banking firm that is a primary U.S. Government securities dealer in New York City (a Primary Treasury Dealer) appointed from time to time by us; *provided* that if any of the foregoing shall cease to be a Primary Treasury Dealer, we shall substitute for such entity another nationally recognized investment banking firm that is a Primary Treasury Dealer.

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Remaining Scheduled Payments means, with respect to each Note of a series to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; *provided*, *however*, that, if such redemption date is not an interest payment date with respect to such Note, the amount of the next succeeding scheduled interest payment thereon will be reduced (solely for the purpose of this calculation) by the amount of interest accrued thereon to, but excluding, such redemption date.

On and after the redemption date, interest will cease to accrue on the Notes called for redemption. On or before any redemption date, we shall deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed on such date.

Covenants

Offer to Repurchase Upon a Change of Control Repurchase Event

If a Change of Control Repurchase Event (defined below) occurs with respect to a series of Notes, we will make an offer to each holder of Notes of such series to repurchase all or any part (in multiples of $1,000 principal amount) of that holder s Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes of such series to be repurchased plus any accrued and unpaid interest on the Notes of such series to be repurchased to the date of repurchase. Within 30 days following any Change of Control Repurchase Event with respect to a series of Notes, or, at our option, prior to any Change of Control, but after the public announcement of the Change of Control, we will mail a notice to each holder of Notes of such series describing the transaction or transactions that constitute or may constitute the Change of Control Repurchase Event and offering to repurchase Notes of such series on the payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the Change of Control, state that the offer to purchase is conditioned on the Change of Control Repurchase Event occurring on or prior to the payment date specified in the notice. We will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Repurchase Event provisions of the Notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control Repurchase Event provisions of the Notes by virtue of such conflict.

On the Change of Control Repurchase Event payment date, we will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to our offer;

(2) deposit with the paying agent an amount equal to the aggregate purchase price in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered to the trustee the Notes properly accepted, together with an officer s certificate stating the aggregate principal amount of Notes being purchased by us.

The paying agent will promptly mail to each holder of Notes properly tendered the purchase price for the Notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new Note equal in principal amount to any unpurchased portion of any Notes surrendered; provided that each new Note will be in a principal amount of $2,000 or an integral multiple of $1,000.

We will not be required to make an offer to repurchase the Notes upon a Change of Control Repurchase Event if a third party makes an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all Notes properly tendered and not withdrawn under its offer.

The source of funds that will be required to repurchase Notes in the event of a Change of Control Repurchase Event will be our available cash or cash generated from our subsidiaries operations or other potential sources, including borrowings, sales of assets or sales of equity. We cannot assure you that sufficient funds from such sources will be available at the time of any Change of Control Repurchase Event to make required repurchases of Notes tendered. The terms of our Credit Agreement provide that certain change of control events will constitute an event of default thereunder entitling the lenders to accelerate any indebtedness outstanding under the facility at that time and to terminate the facility. Our future debt instruments may contain similar restrictions and provisions. If the holders of the Notes of a series exercise their right to require us to repurchase Notes of such series upon a Change of Control Repurchase Event, the financial effect of this repurchase could cause a default under our future debt instruments, even if the Change of Control Repurchase Event itself would not cause a default. It is possible that we will not have sufficient funds at the time of the Change of Control Repurchase Event to make the required repurchase of our other debt and such Notes. See Risk Factors Risks Relating to the Notes We May Not Have Sufficient Funds to Finance a Change of Control Offer, If One is Required.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of our properties or assets and those of our subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase the Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and the assets of our subsidiaries taken as a whole to another person or group may be uncertain.

For purposes of the Notes:

Below Investment Grade Rating Event means, with respect to the Notes, the Notes or the 2044 Notes, that the Notes of such series are unrated or rated below Investment Grade by both Rating Agencies on any date from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the occurrence of a Change of Control (which period shall be extended so long as the rating of the Notes of such series is under publicly announced consideration for possible downgrade by either of the Rating Agencies); *provided* that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of Change of Control Repurchase Event hereunder) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the trustee in writing at its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Below Investment Grade Rating Event); and *provided further* that the trustee shall have no obligation to make such a written request unless and until the Company, a Holder of a Note of such series or a beneficial owner of a Note of such series has requested the trustee to make such a written request, has given the trustee the necessary contact information for the Rating Agencies, has given the trustee a form of such request to the Rating Agencies and has provided the trustee with reasonably sufficient information regarding the particular reduction in rating.

Change of Control means the occurrence of any of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our properties or assets and those of our subsidiaries, taken as a whole, to any person (as that term is used in Section 13(d)(3) of the Exchange Act), other than us or one of our wholly owned subsidiaries;

(2) the adoption of a plan relating to our liquidation or dissolution;

(3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person (as that term is used in Section 13(d)(3) of the Exchange Act), becomes the beneficial owner, directly or indirectly, of more than 50 percent of our Voting Stock, measured by voting power rather than number of shares;

(4) we consolidate with, or merge with or into, any person, or any person consolidates with, or merges with or into, us, in any such event pursuant to a transaction in which any of our outstanding Voting Stock or the

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Voting Stock of such other person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of our Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person or any direct or indirect parent company of the surviving person, immediately after giving effect to such transaction;

(5) the first day on which a majority of the members of our board of directors are not Continuing Directors; or

(6) the consummation of a so-called going private/Rule 13e-3 Transaction that results in any of the effects described in paragraph (a)(3)(ii) of Rule 13e-3 under the Exchange Act (or any successor provision).

Notwithstanding the foregoing, a transaction effected to create a holding company for us will not be deemed to involve a Change of Control if (1) pursuant to such transaction we become a wholly owned subsidiary of such holding company and (2) the holders of the Voting Stock of such holding company immediately following such transaction are the same as the holders of our Voting Stock immediately prior to such transaction.

Change of Control Repurchase Event means, with respect to a series of Notes, the occurrence of a Change of Control and a Below Investment Grade Rating Event with respect to such series of Notes.

Continuing Directors means, as of any date of determination, any member of our board of directors who:

(1) was a member of our board of directors on the first date that the Notes were issued; or

(2) was nominated for election or elected to our board of directors with the approval of a majority of the Continuing Directors who were members of our board of directors at the time of such nomination or election.

Investment Grade means a rating of Baa3 or better by Moody s (or its equivalent under any successor rating categories of Moody s) and BBB- or better by S&P (or its equivalent under any successor rating categories of S&P) (or, in each case, if such Rating Agency ceases to rate the Notes of the relevant series for reasons outside of our control, the equivalent investment grade credit rating from any Rating Agency selected by us as a replacement Rating Agency).

Moody s means Moody s Investor Services Inc., or any successor thereto, including a replacement rating agency selected by us as provided in the definition of Rating Agency.

Rating Agency means:

(1) each of Moody s and S&P; and

(2) if either of Moody s or S&P ceases to rate the Notes of the relevant series or fails to make a rating of the Notes of such series publicly available for reasons outside of our control, a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) under the Exchange Act selected by us as a replacement agency for Moody s or S&P, or both, as the case may be.

S&P means Standard & Poor s Ratings Services, a division of McGraw-Hill, Inc., or any successor thereto, including a replacement rating agency selected by us as provided in the definition of Rating Agency.

Voting Stock as applied to stock of any person, means shares, interests, participations or other equivalents in the equity interest (however designated) in such person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

Limitation on Dispositions of Capital Stock of Designated Subsidiaries

If, at the time when any of the 5.50% Notes are outstanding, we or a subsidiary consummates a sale or other disposition of any Capital Stock of a Designated Subsidiary or a Designated Subsidiary issues Capital Stock, in each case to a person other than us or a subsidiary, then:

- we or the subsidiary must receive consideration at the time of a Designated Subsidiary Stock Disposition at least equal to the fair market value of such Capital Stock, and

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we or our subsidiaries may be required to offer to redeem or repay indebtedness or invest in additional assets as follows:

Ownership of Class or Series of Capital Stock After Giving Effect to Transaction	Required Action
80% or greater	none
less than 80%	if our senior unsecured debt is rated Investment Grade by both Rating Agencies: none
	if our senior unsecured debt is (i) unrated or rated below Investment Grade by one Rating Agency and (ii) rated Investment Grade by the other Rating Agency:
	redeem or repay debt secured by such capital stock, or
	repay term loans under any Credit Agreement otherwise maturing within one year, or
	invest in Additional Assets, or
	offer to purchase Notes and other *pari passu* debt.
	if neither Rating Agency rates our senior unsecured debt Investment Grade:
	redeem or repay debt secured by such capital stock, or

repay term loans under any Credit Agreement otherwise maturing within one year, or

offer to purchase Notes and other *pari passu* debt.

The amount we must use as described above is limited to the fair market value of the consideration attributable to the portion of Capital Stock disposed of in excess of 20% of such class or series of Capital Stock.

We will not, and will not permit any subsidiary to, directly or indirectly, consummate any Designated Subsidiary Stock Disposition unless we or such subsidiary receives consideration at the time of such Designated Subsidiary Stock Disposition at least equal to the fair market value of the Capital Stock included in such Designated Subsidiary Stock Disposition as determined by our board of directors (acting in good faith).

If we or any subsidiary engages in a Designated Subsidiary Stock Disposition and, immediately after giving effect to the Designated Subsidiary Stock Disposition, our senior unsecured debt is (i) unrated or rated below Investment Grade by one Rating Agency and (ii) rated Investment Grade by the other Rating Agency, we or any subsidiary may, at its option, apply, no later than six months following the consummation thereof (or, if later, six months after the execution of any agreement with respect to such application, which agreement is signed within six months of the date of such Designated Subsidiary Stock Disposition) an amount equal to the Disposition Amount to:

(1) redeem or repay any Debt which was secured by the Capital Stock sold or otherwise transferred in such Designated Subsidiary Stock Disposition,

(2) repay term loans under any Credit Agreement otherwise maturing within one year of the repayment date, or

(3) reinvest in Additional Assets;

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provided that if at the time a Designated Subsidiary Stock Disposition has occurred, (a)(i) Moody s rating on our senior unsecured debt is Baa1 or lower and (ii) S&P s rating on our senior unsecured debt is BBB+ or lower, and the applicable Rating Agency has announced or publicly confirmed or informed the trustee in writing that the rating of our senior unsecured debt is on watch for possible downgrade in connection with the Designated Subsidiary Stock Disposition, or (b) the applicable Rating Agency has announced or publicly confirmed or informed the trustee in writing that the rating of our senior unsecured debt is on watch for possible downgrade to a rating below Baa3 or BBB-, the ratings test in this sentence shall be applied on the earlier of (x) the date the watch has ended or (y) the 90th day after the Designated Subsidiary Stock Disposition has occurred. The amount of the Disposition Amount not applied or invested as provided in this paragraph will constitute the Excess Disposition Amount .

When the aggregate Excess Disposition Amount from all Designated Subsidiary Stock Dispositions equals or exceeds $50 million, we will be required to make an offer to purchase for cash the Notes, the Notes and the 2044 Notes from all holders, and, if applicable, redeem or repay (or make an offer to do so) any other Debt of ours that is pari passu in payment in right of the Notes, which we refer to as the Pari Passu Debt , and the provisions of which require us to redeem or repay such Debt with the proceeds from or as a result of any Designated Subsidiary Stock Disposition (or offer to do so), in an aggregate principal amount of Notes of each series and such Pari Passu Debt equal to the Excess Disposition Amount as follows:

(1) we will (a) make an offer to purchase for cash (a Stock Disposition Offer) the Notes to all holders in accordance with the procedures set forth in the Notes, and (b) purchase or repay (or make an offer to do so) any such other Pari Passu Debt, pro rata in proportion to the respective outstanding principal amounts of the Notes of each series and such other Pari Passu Debt required to be redeemed, the maximum principal amount of Notes and Pari Passu Debt that may be redeemed out of the amount (the Payment Amount) of such Excess Disposition Amount,

(2) the offer price for the Notes will be payable in cash in an amount equal to 100% of the principal amount of the Notes tendered pursuant to a Stock Disposition Offer, plus accrued and unpaid interest thereon, if any, to the date such Stock Disposition Offer is consummated (the Offered Price), in accordance with the procedures set forth in the Notes, and the repayment or redemption price for such Pari Passu Debt (the Pari Passu Debt Price) shall be as set forth in the related documentation governing such Debt,