Legg Mason, Inc.

Third Quarter FY 2010 Review

January 21, 2010

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Chairman & CEO

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Chief Financial Officer

Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not statements of facts or guarantees of future performance, and are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those discussed in the statements.

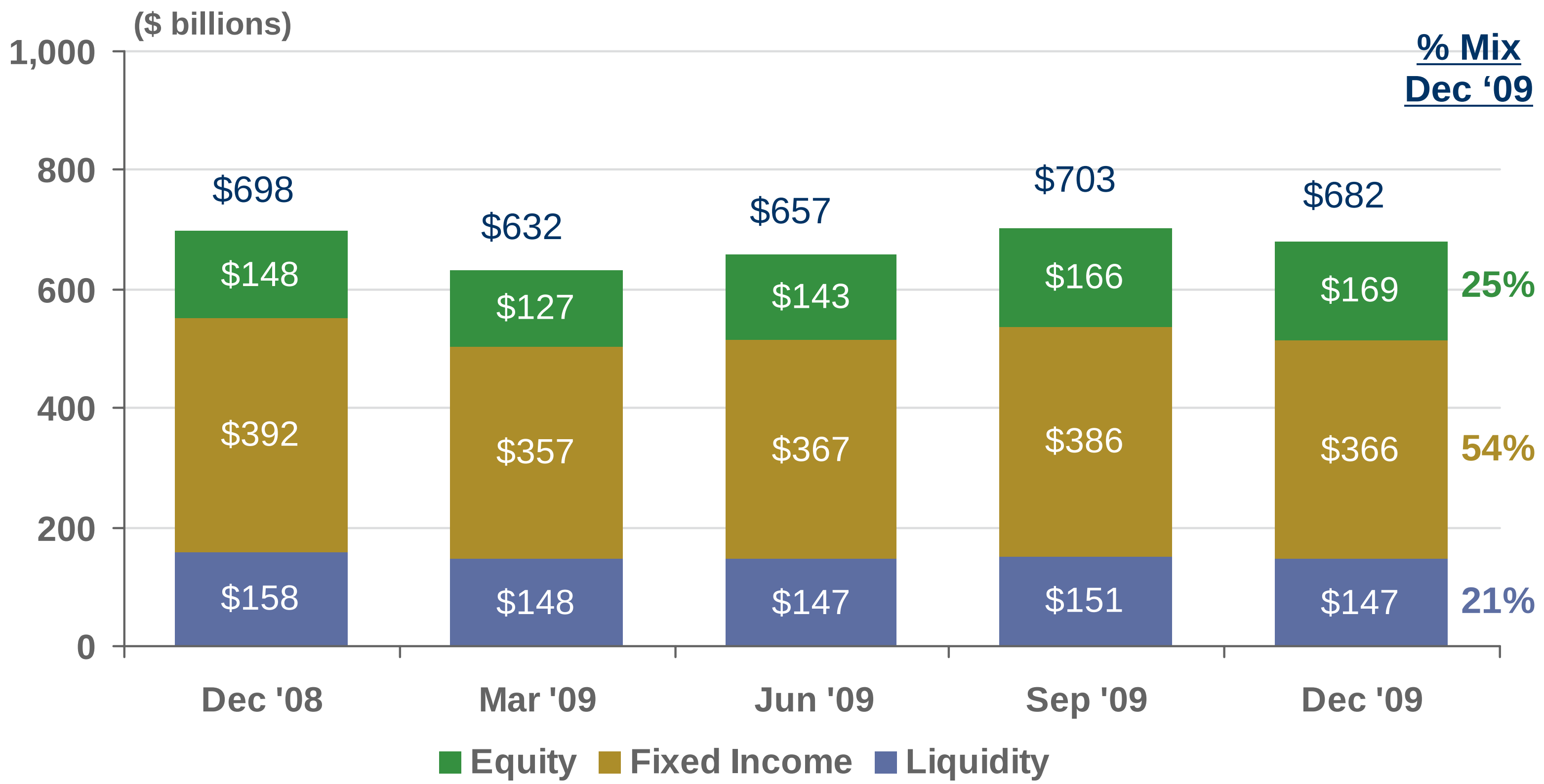
For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2009 and in the Company’s quarterly reports on Form 10-Q.

Financial Highlights

- Improved balance sheet with announcement of $459 million tax refund and $550 million debt repayment in January 2010
- Revenue growth from higher average AUM and realization of performance fees. Cash income, as adjusted[1] and EBITDA, as adjusted[2] improved for the third consecutive quarter
- In fiscal 3Q 2010:
  - Operating revenues $690.5M
  - Operating income $79.2M; operating margin 11.5%
  - Operating income, as adjusted[1], $91.8M; operating margin, as adjusted[1], 17.9%.
    - Impact of real estate lease losses on operating margin, as adjusted, 5.5%
  - Net income $44.9M or $0.28 per diluted share. Includes $28.3M pre-tax real estate lease losses or $0.11 per diluted share.
  - Cash income, as adjusted[1], $93.2M or $0.57 per diluted share
  - EBITDA, as adjusted[1] of $165M
- Over two thirds of long term fund assets are beating their Lipper category average for the 1-, 3-, 5-, and 10-year time periods
- Our focus remains on improving investment performance, cash income, client inflows, and maintaining costs

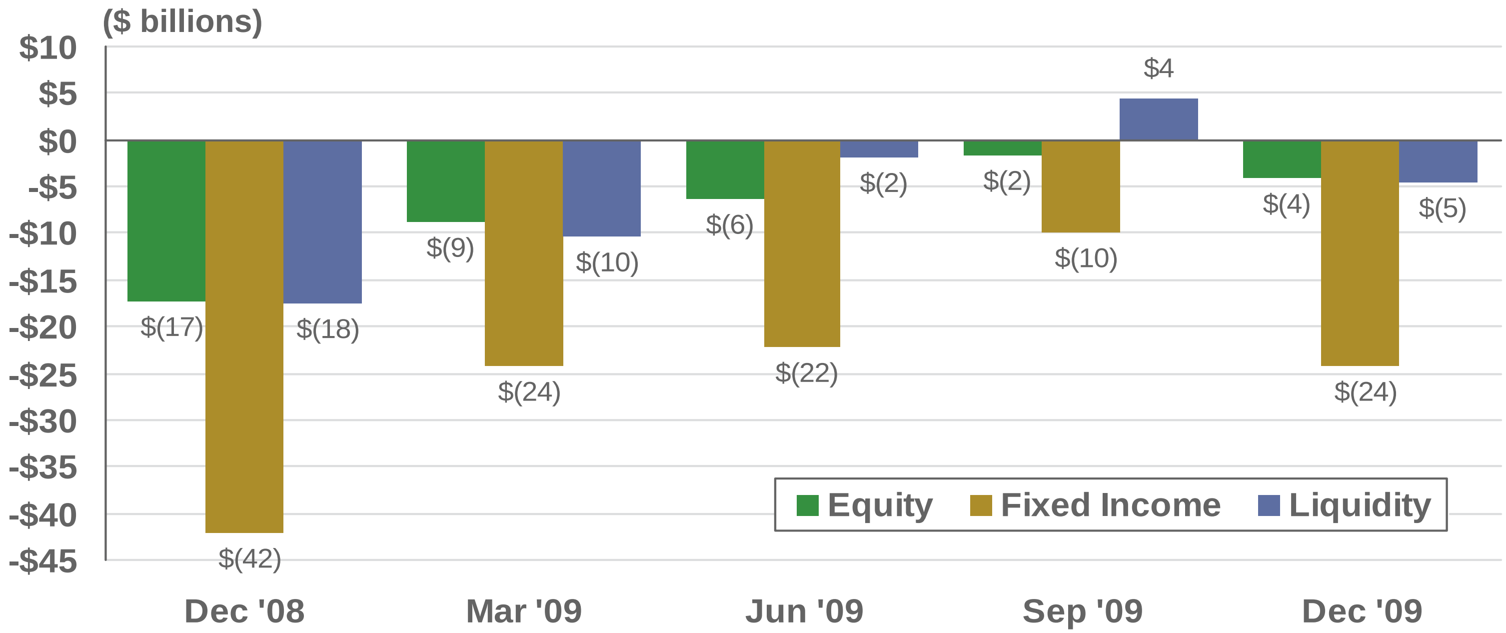
1 See Appendix for GAAP reconciliation
2 EBITDA as defined per bank covenants

Assets Under Management by Asset Class



- Since March '09 Equity assets as a percentage of total AUM have increased from 20% to 25%

Net Flows by Asset Class



Total Net Flows	$(77)	$(43)	$(30)	$(8)	$(33)

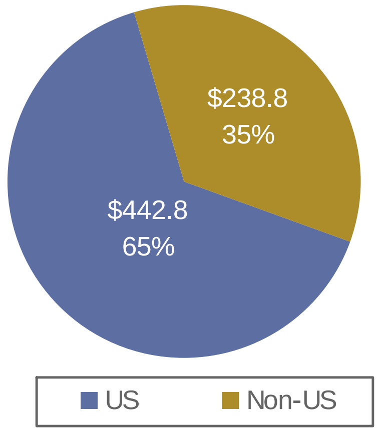
- Net outflows increased to $33 billion, down 58% from December ‘08
- Higher Fixed Income outflows due to client reallocations, seasonal outflows, and continued reductions in enhanced cash products

Assets Under Management ($ billions)

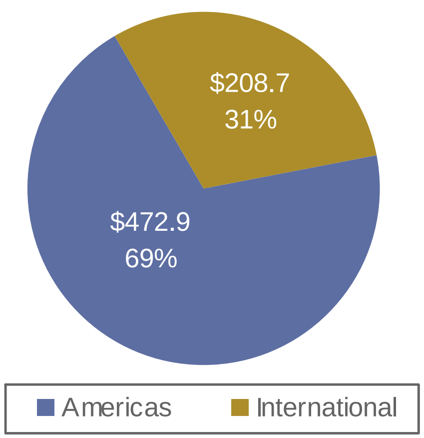
AUM by Affiliate[1]	Dec '09 AUM	Sep '09 AUM	Jun '09 AUM	Vs. Prior Qtr $ Change	Vs. Prior Qtr % Change
Western Asset	$ 481.4	$ 505.5	$ 483.7	$ (24.1)	(5) %
Permal Group	17.9	18.2	17.2	(0.3)	(2) %
ClearBridge	53.5	52.4	47.0	1.1	2 %
Royce & Associates	30.6	28.7	23.3	1.9	7 %
Brandywine	28.9	29.2	26.3	(0.3)	(1) %
Batterymarch	20.4	20.4	17.7	0.0	0 %
LM Capital Mgmt	17.2	16.8	13.7	0.4	2 %

[1] Primary affiliates ordered by contribution to YTD earnings.

AUM by Client Domicile

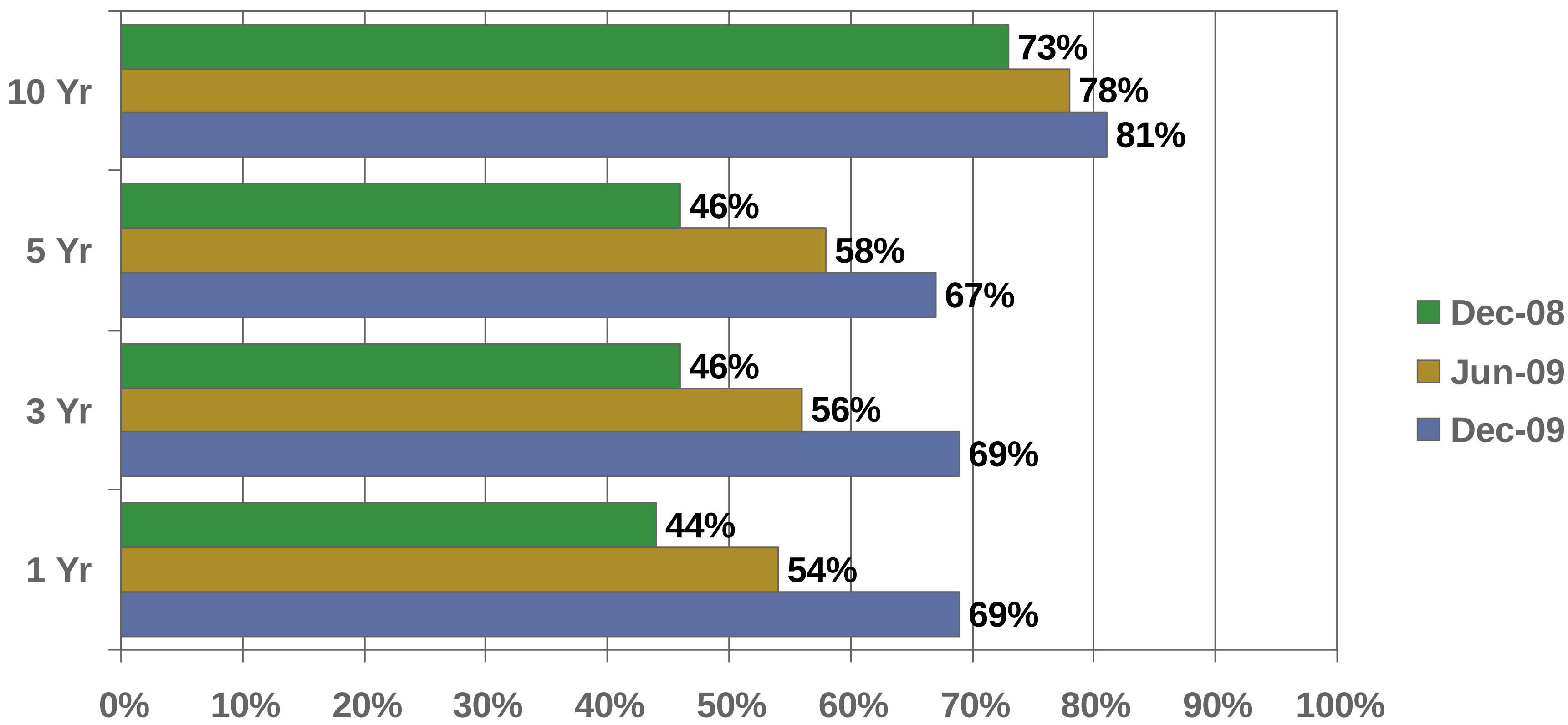


AUM by Division



Long-Term Performance

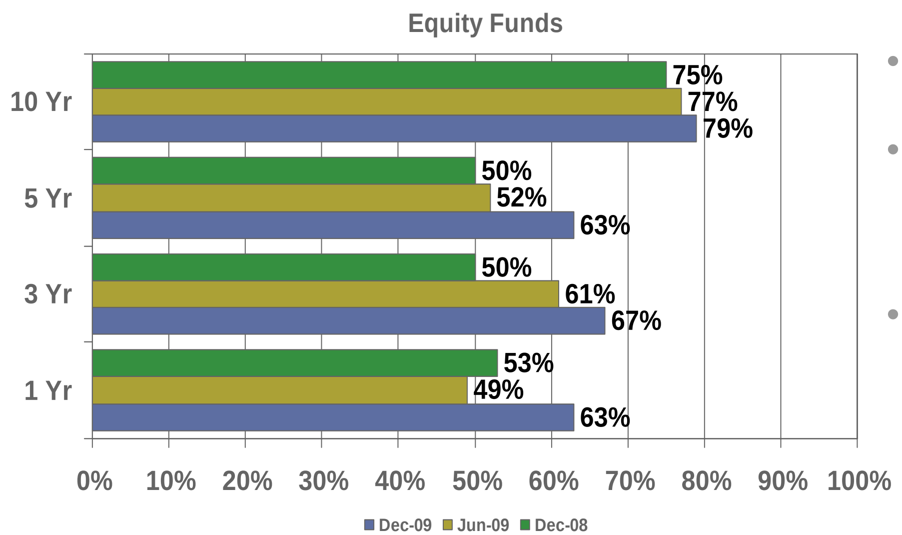
% of Long-Term U.S. Fund Assets beating Lipper Category Average[1]



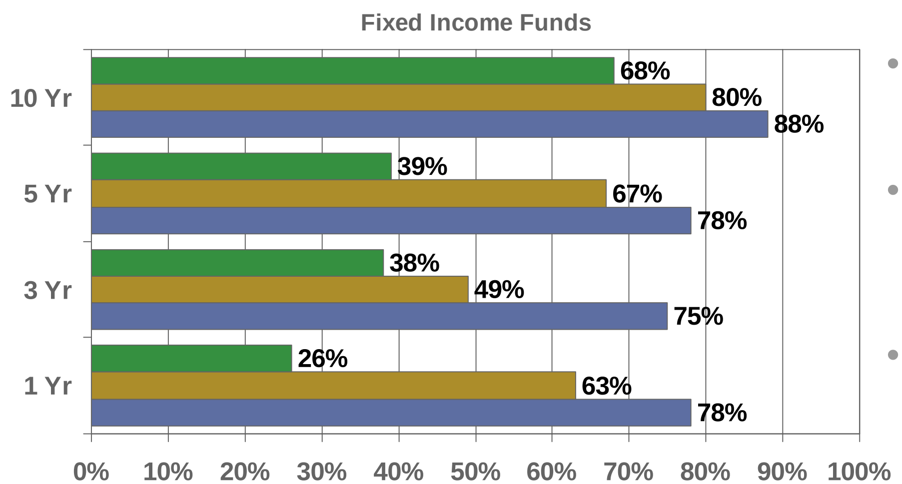
[1] As of December 31, 2009, includes open-end, closed-end, and variable annuity funds. Sources: Lipper Inc. and Morningstar

Long-Term Performance

% of Long-Term U.S. Fund Assets beating Lipper Category Average[1]



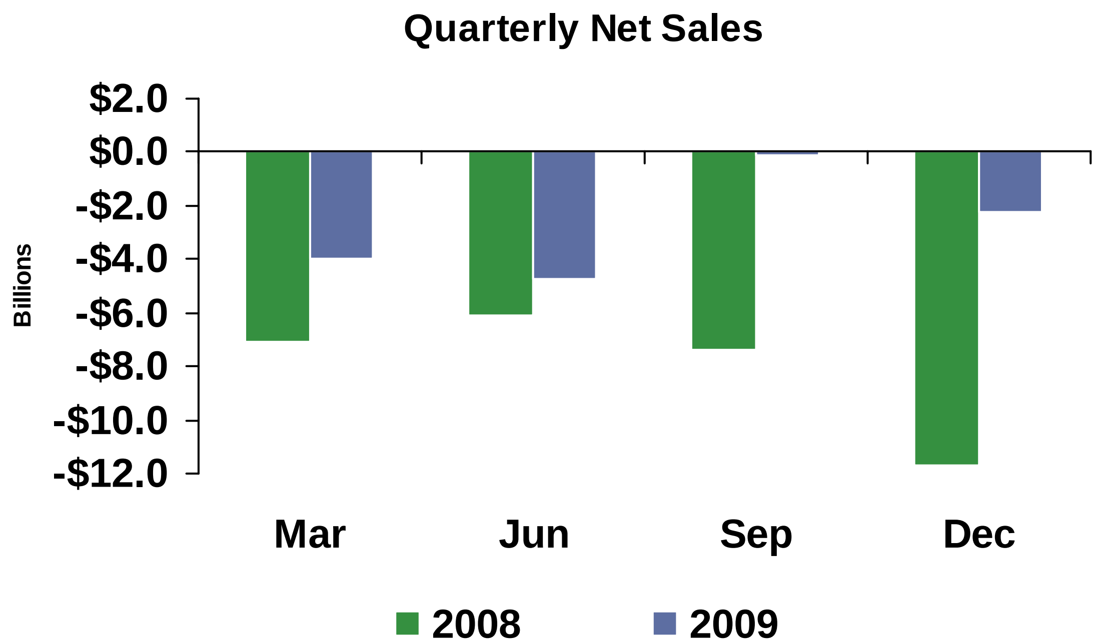
- 51% of Legg Mason's U.S. equity mutual fund assets were rated 4 or 5 stars by Morningstar at December 31, 2009.
- At December 31, 2009, seven out of 13 funds managed by ClearBridge ranked in the top half of their Lipper category for the 1-year period, and 3-year period, and 10 out of 13 for the 10-year period.
- At December 31, 2009, 14 out of 22 funds managed by Royce ranked in the 1st quartile of their Lipper categories for the 1-year period, 15 out of 19 for the 3-year period, and all 9 for the 10-year period.

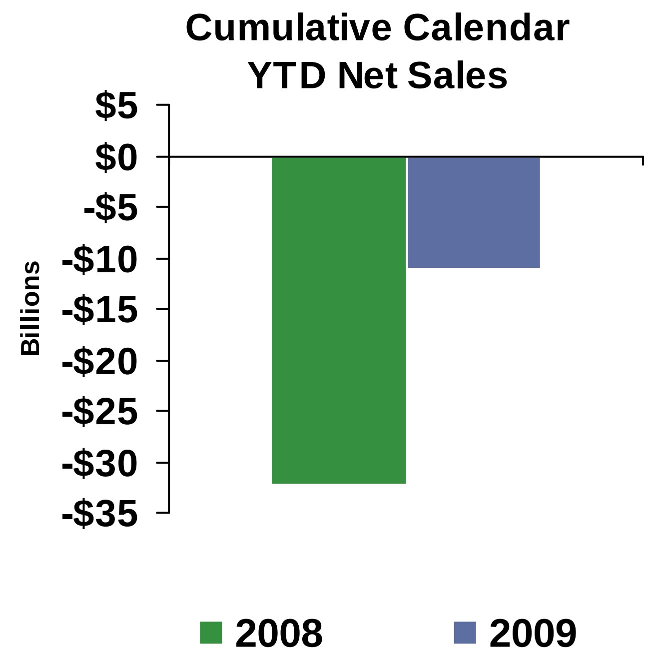


- 47% of Legg Mason's U.S. taxable fixed income and 67% of Legg Mason's municipal mutual fund assets were rated 4 or 5 stars by Morningstar at December 31, 2009.
- At December 31, 2009, 18 out of 21 taxable fixed income funds managed by Western outperformed their Lipper category averages for the 1-year period, nine out of 20 for the 5-year period, and eight out of 16 for the 10-year period.
- At December 31, 2009, six out of 12 municipal funds managed by Western outperformed their Lipper category averages for the 1-year period, all 12 outperformed for the 3- and 5-year periods, and 10 out of 11 outperformed for the 10-year period.

[1]As of December 31, 2009, includes open-end, closed-end, and variable annuity funds. Sources: Lipper Inc. and Morningstar

Americas Distribution Long-Term Sales Trends

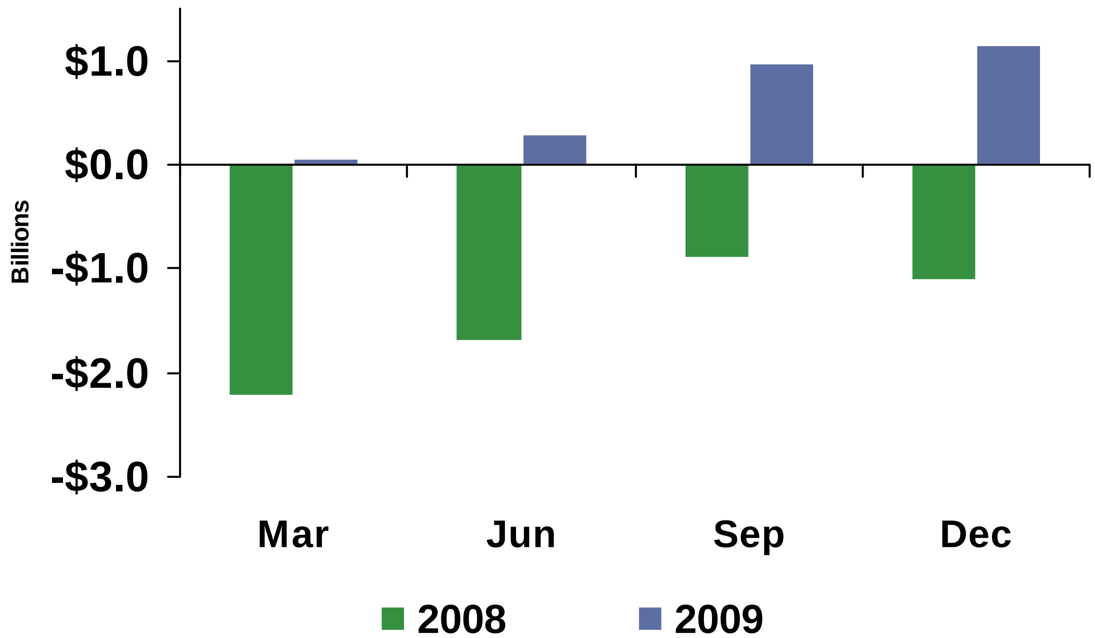


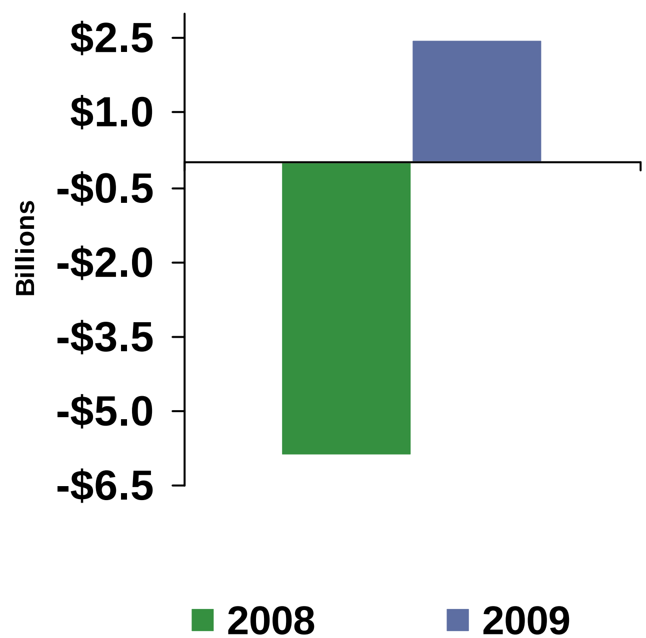


- Calendar 2009 long term net sales have improved 65% over last year
- Domestic long-term net flows have improved ten out of the last twelve months when compared to the prior year period

Represents net sales by Legg Mason's centralized Americas distribution operations

International Distribution Long-Term Sales Trends





- International Distribution long-term net sales continue to increase
- Net long term sales have improved each of the past twelve months when compared to the prior year period

Represents net sales by Legg Mason's centralized International distribution operations

Operating Results

($ millions, except per share amounts)	Dec 09 Qtr	Sep 09 Qtr	Dec 08 Qtr	$ Change vs. Sep 09	$ Change vs. Dec 08
Operating Revenues	$ 690.5	$ 659.9	$ 720.0	$ 30.6	$ (29.5)
Operating Expenses	611.3	582.0	1,793.0	29.3	(1,181.7)
Operating Income	79.2	77.9	(1,073.0)	1.3	1,152.2
Net Income (Loss)	44.9[1]	45.8[2]	(1,492.8)	(0.9)	1,537.7
Diluted EPS	0.28	0.30	(10.59)	(0.02)	10.87
Cash Income, as adjusted[3]	93.2	90.0	(756.6)	3.2	849.8
Cash Income, as adjusted, per diluted share[3]	0.57	0.59	(5.37)	(0.02)	5.94
Operating Margin, as adjusted[3]	17.9%	21.0%	20.9%		

1 Includes $28M pre-tax real estate lease loss
2 Includes $22M pre-tax transaction costs from exchange of 91% of equity units partially offset by $15M in resulting interest expense reduction
3 See Appendix for GAAP reconciliation

Operating Expenses

($ millions)	Dec '09	Sep '09	% Chg	Dec '08	% Chg
Compensation and benefits	$ 287.7	$ 287.6	0%	$ 195.2	47%
Distribution and servicing	177.7	174.4	2%	202.5	(12%)
Communications and technology	39.8	40.5	(2%)	45.1	(12%)
Occupancy	63.2	35.7	77%	70.7	(11%)
Amortization of intangible assets	5.7	5.7	1%	9.3	(38%)
Impairment charges	-	-	0%	1,225.1	(100%)
Other	37.2	38.1	(2%)	45.1	(18%)
Total Operating Expenses	$ 611.3	$ 582.0	5%	$1,793.0	(66%)

- Total operating expenses, excluding real estate lease losses, were flat, while revenues increased 5% from the prior quarter

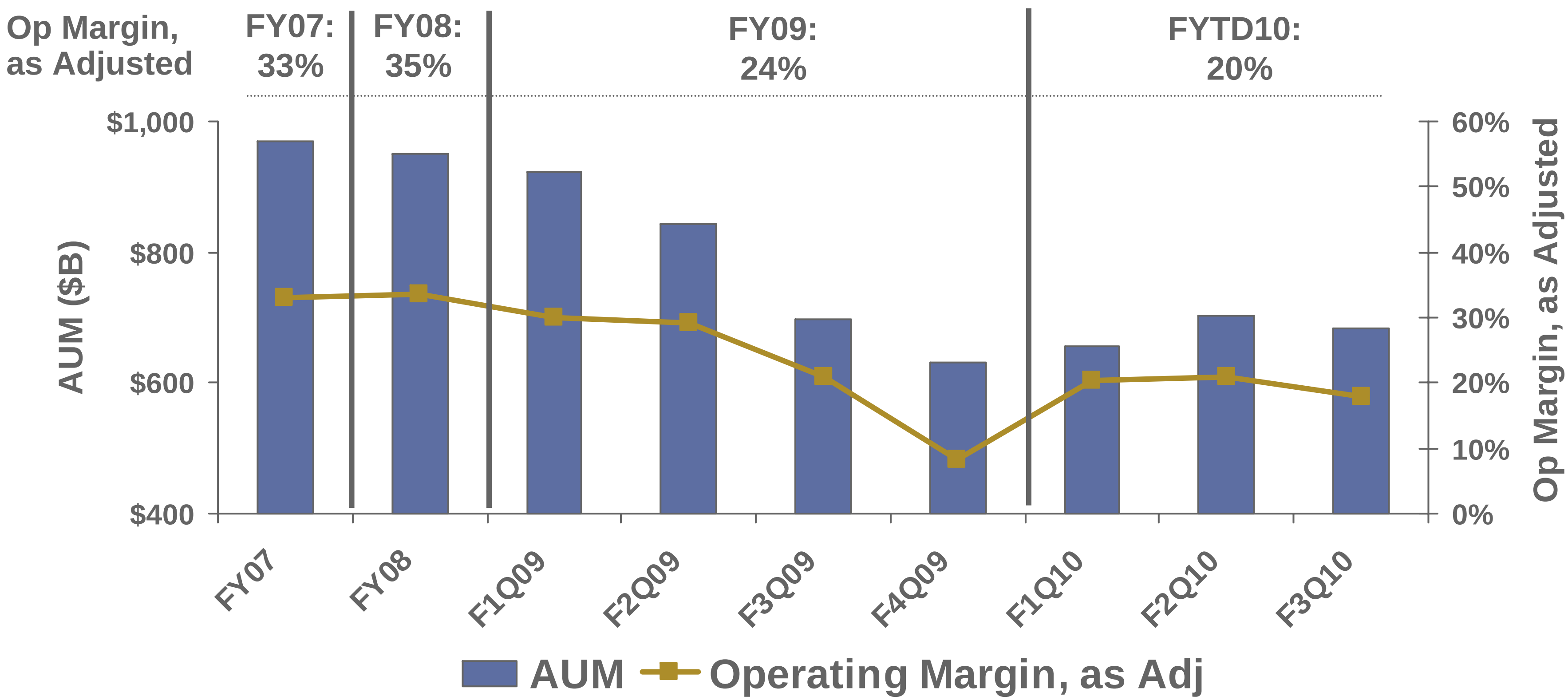
Compensation and Benefits

($ millions)	Dec '09	% of Net Rev. [1]	Sep '09	% of Net Rev.	$ Change
Salary and incentives	$ 231.6	45%	$ 221.1	46%	$ 10.5
Benefits and payroll taxes	41.9	8%	39.9	8%	2.0
Subtotal Compensation and benefits	**273.5**	**53%**	**261.0**	**54%**	**12.5**
Severance	1.5	0%	2.5	1%	(1.0)
MTM deferred comp. and seed investments	12.7	3%	24.1	4%	(11.4)
Total Compensation and Benefits	$ 287.7	56%	$ 287.6	59%	$ 0.1

[1] Net revenue is equal to operating revenues, as adjusted

- Compensation and benefits as percentage of net revenues declined to 53% compared to 54% in the prior quarter

Operating Margin, as Adjusted



Note: See Appendix for GAAP reconciliation

Balance Sheet

($ millions)	Proforma Dec '09	Dec '09	Sep '09	Dec '08
Cash & cash equivalents[1]	$ 1,351	$ 1,442	$ 1,571	$ 2,380
Intangibles and goodwill	5,227	5,227	5,215	5,259
Other assets	1,973	2,432	2,411	2,405
Total Assets	$ 8,551	$ 9,101	$ 9,197	$ 10,044
Debt	$ 1,415	$ 1,965	$ 1,958	$ 3,235
Other liabilities & non controlling interest	1,351	1,351	1,509	1,839
Stockholders' equity	5,785	5,785	5,730	4,970
Total Liabilities & Stockholders' Equity	$ 8,551	$ 9,101	$ 9,197	$ 10,044
Debt to Total Capital Ratio	20%	25%	25%	39%

[1] Includes restricted cash

- Proforma:
  - Cash & cash equivalents reflects net impact of $459 million tax refund and repayment of $550 million of debt
  - Debt reduction reflects repayment of term loan

Debt Covenant Ratios

($ millions)	Proforma Dec '09 (1)	Dec '09	Sep '09	Jun '09
Bank Includable Debt	$ 1,545	$ 2,095	$ 2,096	$ 2,097
Less: Unrestricted Cash	(837)	(928)	(1,048)	(1,039)
Net Debt [2]	$ 708	$ 1,167	$ 1,048	$ 1,058
EBITDA, as adjusted[3]	$ 569	$ 569	$ 618	$ 761
Interest Expense	51	103	126	158
Gross Leverage Ratio	2.7	3.7	3.4	2.8
Net Leverage Ratio (max 3.0x)[2]	1.2	2.1	1.7	1.4
Interest Coverage Ratio (min 4.0x)	11.2	5.5	4.9	4.8

[1] Proforma impact for exclusion of all interest expense associated with the $550M Term Loan repaid in Jan '10 ($15M), remaining interest expense related to the Aug '09 equity unit conversion ($36M) and $459M tax refund received in Jan '10

[2] Net Leverage Ratio provides credit for the Company's unrestricted cash in excess of subsidiary working capital

[3] Trailing Twelve Month EBITDA as defined per bank covenant

- Repayment of debt in January 2010 on proforma basis, lowers interest expense and outstanding debt, further improving debt covenant ratios

Closing Comments

- Improved balance sheet
  - Cash position (proforma) of $1.4 billion, including $1.0 billion of net free cash
  - Reduced term debt by $550 million and received $459 million tax refund in January 2010
- Continued focus on costs and generating cash
  - Continue to focus on streamlining support services and reducing costs
- Engage with affiliates
  - Over two thirds of long term fund assets are beating their Lipper category average for the 1-, 3-, 5-, and 10-year time periods
- Growth through distribution and product innovation
  - Net domestic long-term fund sales have improved versus last year
  - Net international long-term fund sales continued to improve with quarterly inflows trending higher for the year
- Investment opportunities
  - Actively pursuing a targeted pipeline

Appendix – GAAP Reconciliation Cash Income, as adjusted

($ millions, except per share amounts)	Quarters Ended Dec 09	Sep 09	Dec 08
Net Income (Loss) attributable to Legg Mason, Inc.	$ 44.9	$ 45.8	$(1,492.8)
Plus:			
Amortization of intangible assets	5.7	5.6	9.3
Deferred income taxes on intangible assets	33.9	34.0	37.3
Deferred income taxes on impairment charges	-	-	(374.4)
Imputed interest on convertible debt[1]	8.6	8.6	8.1
Cash Income (Loss)	93.2	94.0	(1,812.6)
Plus (Less):			
Net money market fund support (gains) losses[2]	-	(4.0)	662.6
Impairment charges	-	-	1,225.1
Less			
Net loss on sale of SIV securities[2]	-	-	(831.7)
Cash Income (Loss), as adjusted	$ 93.2	$ 90.0	$ (756.6)
Net Income (Loss) per Diluted Share attributable to Legg Mason, Inc. common shareholders	$ 0.28	$ 0.30	$ (10.59)
Plus:			
Amortization of intangible assets	0.03	0.04	0.07
Deferred income taxes on intangible assets	0.21	0.22	0.26
Deferred income taxes on impairment charges	-	-	(2.65)
Imputed interest on convertible debt[1]	0.05	0.05	0.06
Cash Income (Loss) per Diluted Share	0.57	0.61	(12.85)
Plus (Less):			
Net money market fund support (gains) losses[2]	-	(0.02)	4.70
Impairment charges	-	-	8.68
Less			
Net loss on sale of SIV securities[2]	-	-	(5.90)
Cash Income (Loss) per Diluted Share, as adjusted	$ 0.57	$ 0.59	$ (5.37)

[1] Effective April 1, 2009, in accordance with new accounting guidance, Legg Mason was required to retroactively impute (non-cash) interest expense on convertible debt using an effective interest rate that would have been attributable to nonconvertible debt at the original date of issuance. This adjustment also includes the actual tax benefits relating to the convertible debt that are not recognized for GAAP purposes.

[2] Includes related adjustments to operating expenses, if applicable, and income tax provision (benefit).

Appendix – GAAP Reconciliation
Operating Margins

($ millions)	Jun '08	Sep '08	Dec '08	Mar '09	Jun '09	Sep '09	Dec '09
	Quarters Ended						
Operating Revenues, GAAP basis	$ 1,054.0	$ 966.1	$ 720.0	$ 617.2	$ 613.1	$ 659.9	$ 690.5
Less:							
Distribution and servicing expenses	307.8	278.9	202.5	180.6	172.5	174.4	177.7
Operating Revenues, as adjusted	$ 746.2	$ 687.2	$ 517.5	$ 436.6	$ 440.6	$ 485.5	$ 512.8
Operating Income (Loss)	$ 228.9	$ 220.2	$ (1,073.0)	$ (45.3)	$ 58.3	$ 77.9	$ 79.2
Add (Less):							
Gains (losses) on deferred compensation and seed investments	(5.1)	(19.9)	(44.0)	(1.9)	31.4	24.1	12.6
Impairment charges	-	-	1,225.1	82.9	-	-	-
Operating Income (Loss), as adjusted	$ 223.8	$ 200.3	$ 108.1	$ 35.7	$ 89.7	$ 102.0	$ 91.8
Operating margin, GAAP basis	21.7%	22.8%	-149.0%	-7.3%	9.5%	11.8%	11.5%
Operating margin, as adjusted	30.0%	29.1%	20.9%	8.2%	20.4%	21.0%	17.9%

Appendix – GAAP Reconciliation

Operating Margins

($ millions)	FY07	FY08	FY09	FYTD10
Operating Revenues, GAAP basis	$ 4,343.7	$ 4,634.1	$ 3,357.3	$ 1,963.5
Less:				
Distribution and servicing expenses	1,196.0	1,274.0	969.8	524.6
Operating Revenues, as adjusted	$ 3,147.7	$ 3,360.1	$ 2,387.5	$ 1,438.9
Operating Income (Loss)	$ 1,028.3	$ 1,050.2	$ (669.2)	$ 215.4
Add (Less):				
Gains (losses) on deferred compensation and seed investments	13.7	(8.8)	(70.9)	68.1
Impairment charges	-	151.0	1,308.0	-
Operating Income (Loss), as adjusted	$ 1,042.0	$ 1,192.4	$ 567.9	$ 283.5
Operating margin, GAAP basis	23.7%	22.7%	-19.9%	11.0%
Operating margin, as adjusted	33.1%	35.5%	23.8%	19.7%

Appendix – GAAP Reconciliation

EBITDA, as adjusted

	Dec '08	Mar '09	Jun '09	Sep '09	Dec '09
Net income (loss), including non-controlling interest	**$ (1,493.0)**	**$ (326.9)**	**$ 52.3**	**$ 47.3**	**$ 46.2**
Income tax provision (benefit)	(778.0)	(364.5)	28.4	27.7	26.0
Impairment of goodwill and intangible assets	1,225.1	82.9	-	-	-
Unrealized (gain) loss on fund support	1,093.0	612.4	(17.6)	(5.6)	-
Depreciation and amortization, including stock-based compensation amortization	58.3	59.6	47.4	43.9	47.6
Lease writeoffs, net of cash paid	36.4	28.0	(2.6)	(3.2)	20.8
Interest expense	45.6	46.9	43.4	28.6	29.2
Unrealized (gain) loss on investments	29.8	(4.9)	(19.8)	(6.1)	(4.1)
Other	(2.5)	(0.2)	1.0	5.3	(0.3)
EBITDA, as adjusted [1]	**$ 214.7**	**$ 133.3**	**$ 132.5**	**$ 137.9**	**$ 165.4**

[1] As defined by our bank covenants.