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GLOBAL ASSET MANAGEMENT

Legg Mason, Inc.

Fourth Quarter FY 2010 Review

May 10, 2010

Mark R. Fetting

Chairman & CEO

Charles J. ("CJ") Daley, Jr.

Chief Financial Officer

Batterymarch • Brandywine Global • ClearBridge Advisors • Legg Mason Capital Management • Legg Mason Global Equities Group
Permal • Private Capital Management • Royce & Associates • Western Asset Management

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.

A Year of Progress

- Significantly improved balance sheet
  - $1B excess cash
  - Reduced debt
  - Increased stockholders' equity
- Continued focus on costs and generating cash
  - Expense save targets achieved by June 30, 2009
  - Improving cash income
- Engage with affiliates
  - Strong investment performance improvements over last year
  - Formalized affiliate business reviews focused on performance, risk management, talent management and growth opportunities
  - Close collaboration in determining how we will evolve the business model

A Year of Progress

- Growth through distribution and product innovation
  - $33B in gross sales from Americas Distribution (up 27% from FY 2009), positive fourth quarter FY 2010 net flows
  - $3.7B in net inflows from International Distribution (up from net outflows of $3.5B in FY 2009)
- Investment opportunities
  - Added investment, credit and risk management professionals at Western Asset Management and added investment professionals at Brandywine
  - Recently completed small bolt-on acquisition of Wyper Asset Management for Royce
  - Actively pursuing additional opportunities to add individuals or teams that help fill strategic needs in our affiliates

Streamlined Legg Mason Business Model

Affiliates Investing

BATTERYMARCH FINANCIAL MANAGEMENT, INC.

Brandywine GLOBAL

CLEARBRIDGE ADVISORS

LEGG MASON CAPITAL MANAGEMENT

LEGG MASON Global Equities Group

PERMAL

Royce&Associates

WESTERN ASSET

Strategic Services

Retail Distribution

- **Americas**
- **International**

Capital Allocation

Business Development

Client Value

&

Shareholder Value

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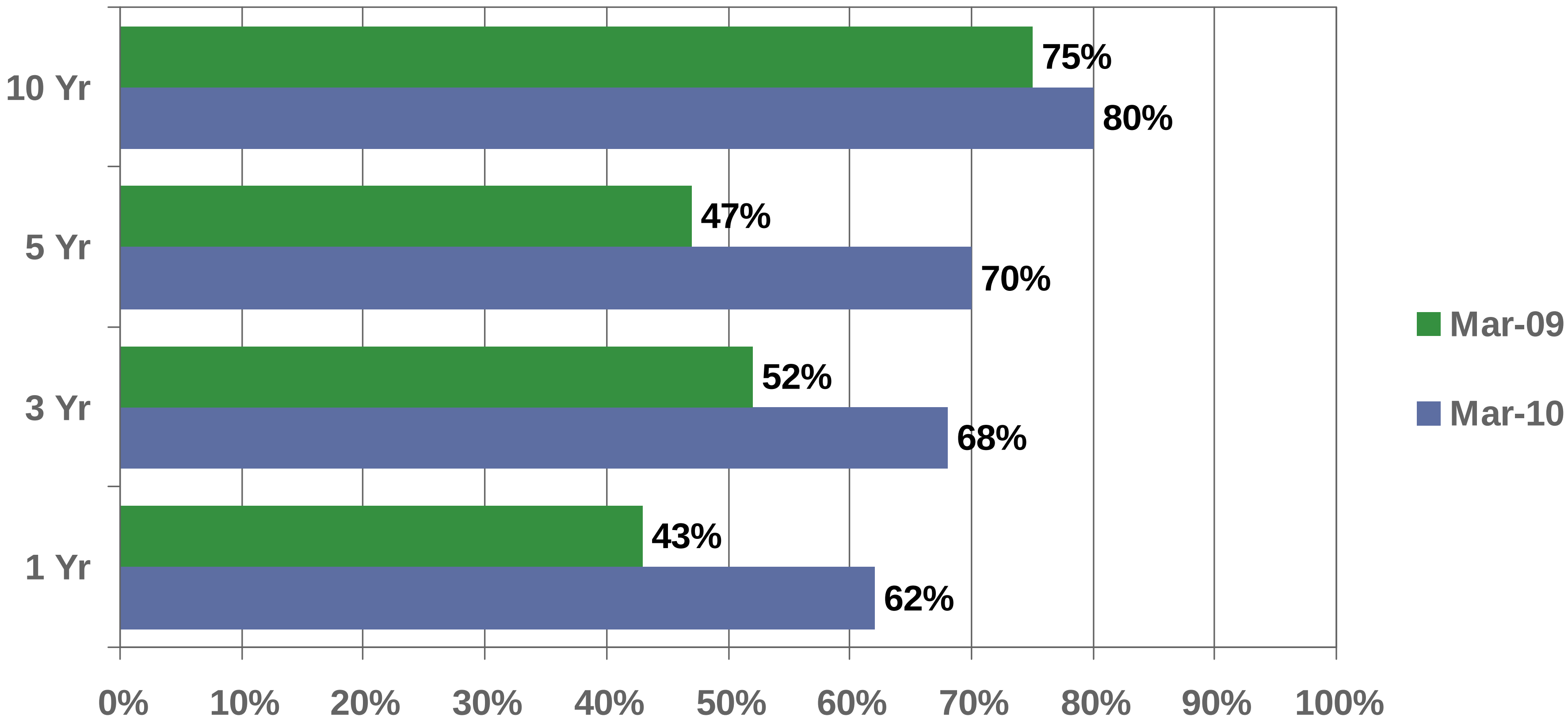
Sharpening Focus - Streamlining Business Model

- Strategic evolution, not just operational shift
- Transition of certain shared services to be absorbed by the affiliates and Americas Distribution sharing in revenue on retail-based AUM growth will benefit shareholders
  - $130M - $150M in projected annualized savings when fully phased-in (fourth quarter FY 2012)
  - Restructuring and transition related costs over the next 18 months
  - Expect to produce 6-8% of margin improvement
- Enhanced growth in shareholder value through multiple sources
  - Top line growth from affiliates marketing to institutional clients supported by retail and quasi-retail distribution globally
  - Significant expense reduction and margin improvement
  - Accretive share repurchase program – a compelling capital use given our growth prospects

Key to Growth – Improving Long-Term Performance

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



[1] As of March 31, 2010, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

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Affiliates Acknowledged for Improved Performance in FY 2010

- Royce's Charlie Dreifus was nominated by Morningstar for Domestic Equity Fund Manager of the Decade
- Nine Legg Mason Funds won US Lipper Fund Awards
- Legg Mason Japan won Japan Lipper Award for Best Group in Mixed Assets category
- A Permal fund won two awards: Best Fixed Income & Credit Award for 2009 and Fund of Hedge Funds Multi Strategy Over $1 Billion for 2009
- Wall Street Journal Category Kings as of 3/31/10 --- LMCM (4 funds) and Royce (1 fund)

Which Leads to Improving Net Flows

Organic Growth Rate	(24.9%)	(19.2%)	(4.9%)	(18.6%)	(6.4%)

- Net long-term outflows improved by $18B or 63% compared to the Dec 09 quarter
- FY 2010 net long-term outflows improved 41% compared to FY 2009

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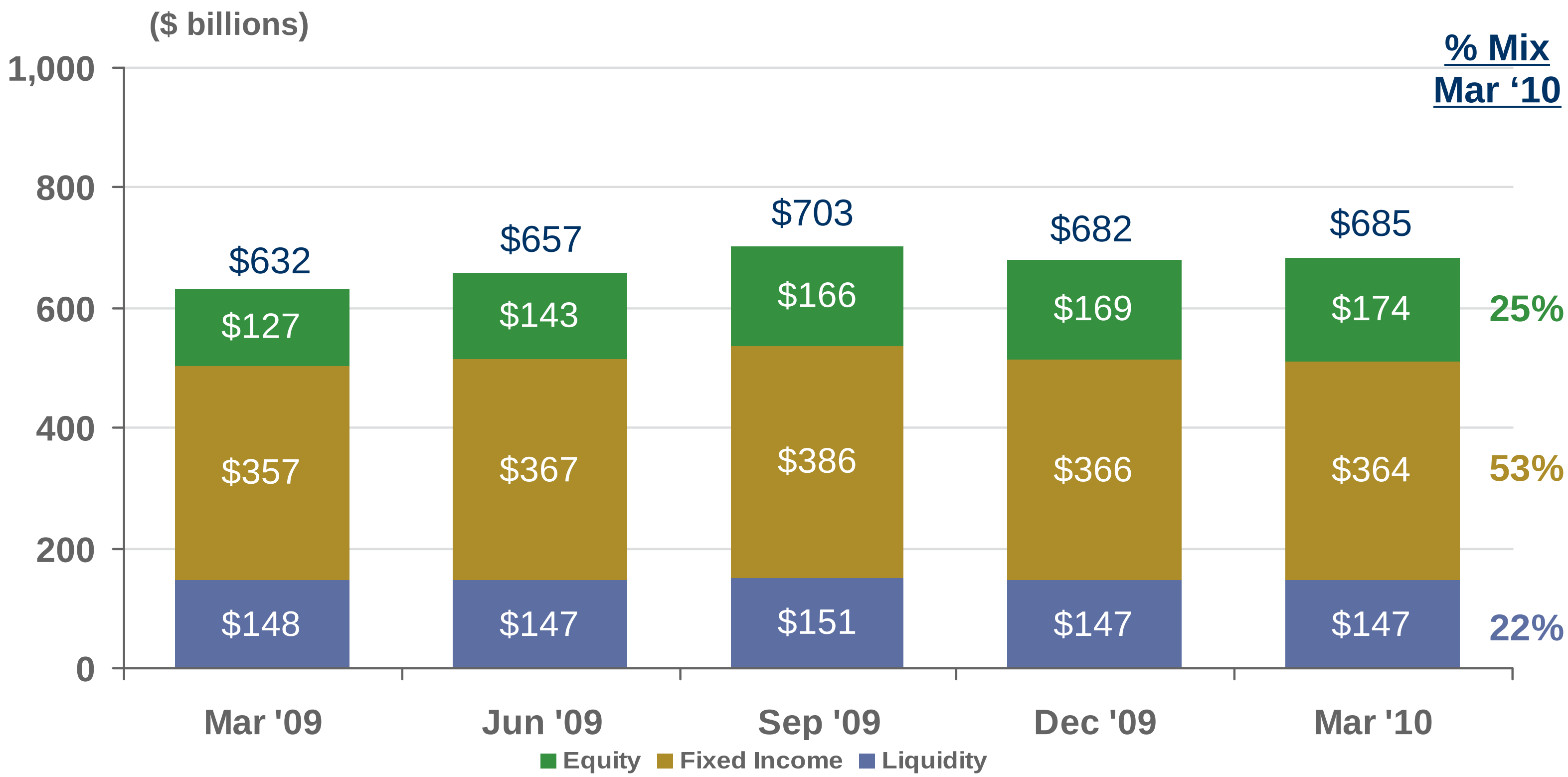
Assets Under Management by Asset Class



- Increase in AUM driven by market appreciation of $14B, partially offset by net outflows of $11B
- Compared to March 2009, AUM increased $53B or 8% with Equity AUM accounting for 90% of the increase

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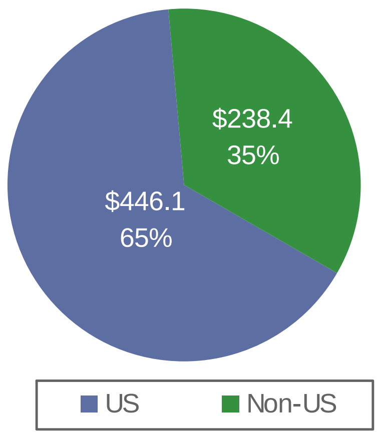
Assets Under Management ($ billions)

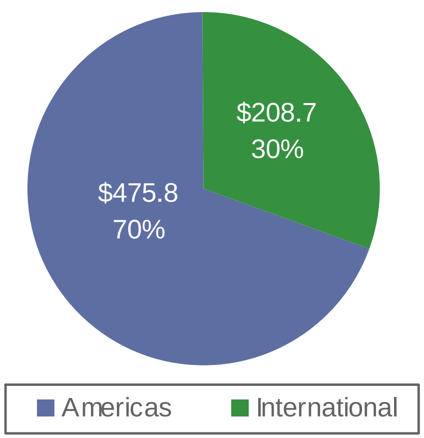
AUM by Affiliate[1]	Mar '10 AUM	Dec '09 AUM	Mar '09 AUM	Vs. Prior Year $ Change	Vs. Prior Year % Change
Western Asset	$ 478.2	$ 481.4	$ 473.2	$ 5.0	1 %
Permal Group	17.4	17.9	18.5	(1.1)	(6)%
ClearBridge	54.4	53.5	42.7	11.7	27 %
Royce & Associates	33.9	30.6	18.3	15.6	85 %
Brandywine	30.4	28.9	28.2	2.2	8 %
LM Capital Mgmt	17.9	17.2	12.0	5.9	49 %
Batterymarch	20.9	20.4	15.4	5.5	36 %

[1] Primary affiliates ordered by contribution to fiscal year 2010 pre-tax earnings

AUM by Client Domicile



AUM by Division



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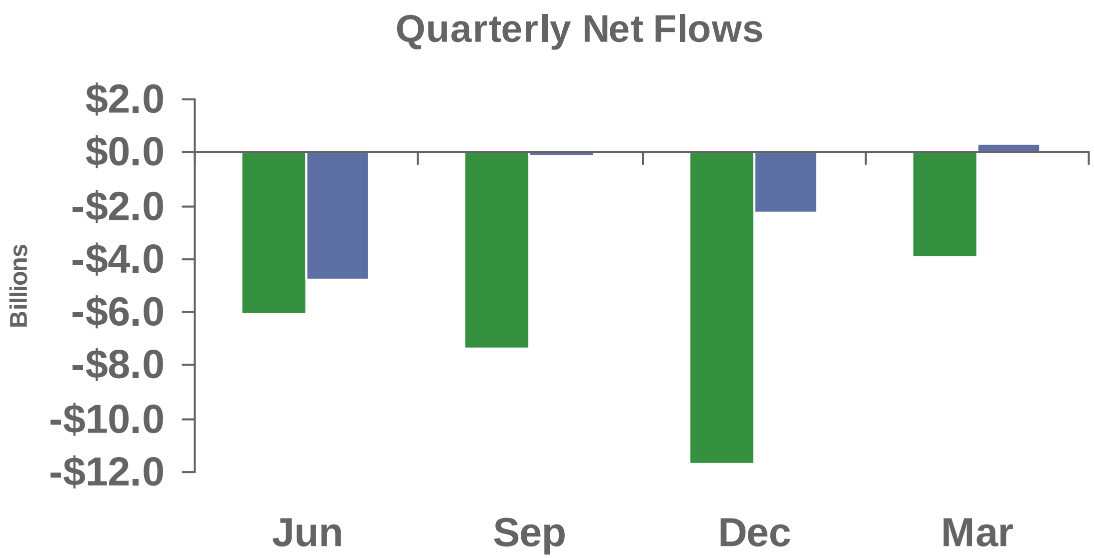
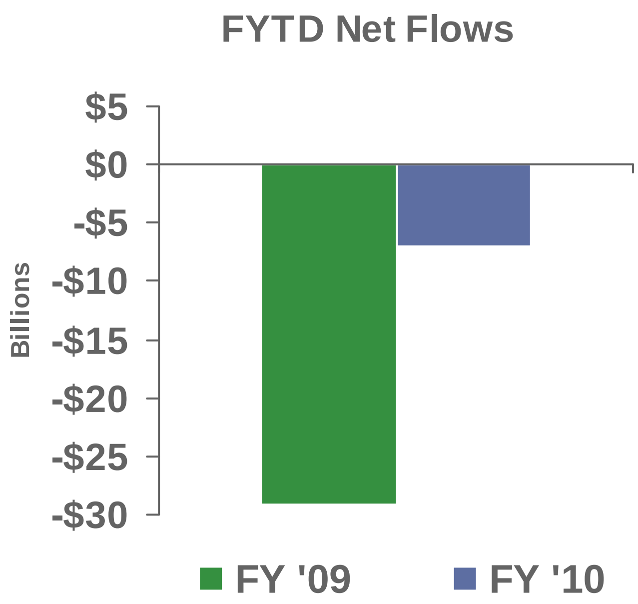
Americas Distribution Long-Term Flow Trends





- FYTD net outflows have improved by 76%
- Achieved positive net flows in March 2010 quarter

Represents net flows by Legg Mason's Americas distribution operations

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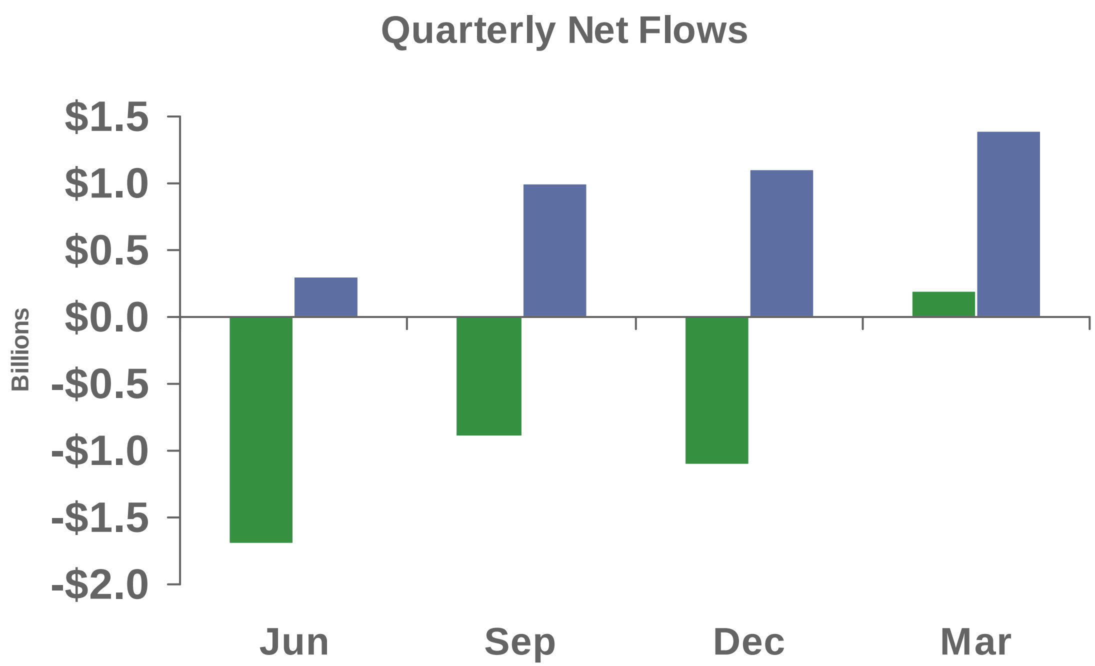
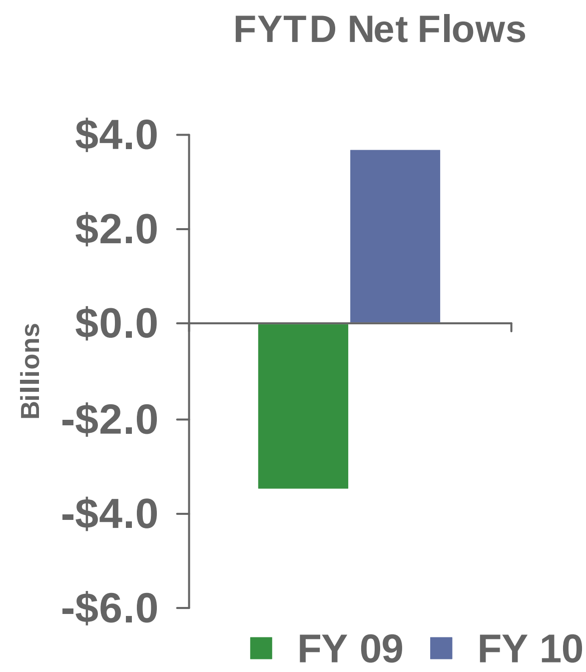
International Distribution Long-Term Flow Trends





- Five consecutive quarters of positive net flows

Represents net flows by Legg Mason's International distribution operations

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Financial Highlights FY 2010

- FY 2010 Net income of $204M or $1.32 per diluted share, compared to FY 2009 Net loss of $2.0B or $13.99 per diluted share (money market fund support and goodwill and intangible asset impairment charges incurred in FY 2009)
  - Average AUM for FY 2010 was $676B, down 17% from FY 2009
  - Operating revenues of $2.6B decreased 22% compared to FY 2009, primarily due to a decline in average AUM
  - Operating income of $321M increased from a loss of $669M in FY 2009. Results for FY 2009 included intangible asset impairment charges of $1.3B; FY 2010 operating margin 12.2%
  - Operating income, as adjusted[1], of $400M decreased by 29%
  - Operating margin, as adjusted[1], of 20.6%, compares to 23.8% in FY 2009
  - Cash income, as adjusted[1], of $381M, compares to a cash loss, as adjusted, of $1.2B in FY 2009

1 See Appendix for GAAP reconciliation

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Operating Results FY 2010

($ millions, except per share amounts)	FY 10	FY 09	Variance $	Variance %
Operating Revenues	$ 2,634.9	$ 3,357.3	$ (722.4)	(22%)
Operating Expenses	2,313.7	4,026.5	(1,712.8)	(43%)
Operating Income (Loss)	321.2	(669.2)	990.4	148%
Net Income (Loss)	204.4	(1,967.9)	2,172.3	110%
Diluted EPS	1.32	(13.99)	15.31	109%
Cash Income (Loss), as adjusted[1]	381.3	(1,191.4)	1,572.7	132%
Cash Income (Loss), as adjusted, per diluted share[1]	2.45	(8.47)	10.92	129%
Operating Margin, as adjusted[1]	20.6%	23.8%		
Comp. & Benefit ratio	53%	50%		

1 See Appendix for GAAP reconciliation

Financial Highlights Fourth Quarter FY 2010

- Net Income of $64M ($0.39 per diluted share) increased 42% over third quarter FY 2010
- In fourth quarter FY 2010:
  - Average AUM of $681B, down $12B or 2% from the prior quarter
  - Operating revenues $671M, decreased 3% largely due to lower average AUM, fewer days in the quarter, increased fee waivers in our liquidity business, and lower performance fees
  - Operating expenses of $566M decreased by 7%. Last quarter results included $28M in real estate losses while current quarter includes a $13M net settlement reserve offset in part by an $8M lease reserve recovery
  - Operating income $106M; operating margin 15.8%
  - Operating income, as adjusted[1], $117M; operating margin, as adjusted[1], 23.2%
  - Cash income, as adjusted[1], $111M or $0.69 per diluted share
  - EBITDA[2], as adjusted[1], of $157M

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

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Operating Results Fourth Quarter FY 2010

($ millions, except per share amounts)	Mar 10 Qtr	Dec 09 Qtr	Mar 09 Qtr	$ Change vs. Dec 09	$ Change vs. Mar 09
Operating Revenues	$ 671.4	$ 690.5	$ 617.2	$ (19.1)	$ 54.2
Operating Expenses[1]	565.6	611.3	662.5	(45.7)	(96.9)
Operating Income (Loss)	105.8	79.2	(45.3)	26.6	151.1
Net Income (Loss)	63.6[1]	44.9[1]	(330.2)	18.7	393.8
Diluted EPS	0.39	0.28	(2.33)	0.11	2.72
Cash Income (Loss), as adjusted[2]	111.3	93.2	(741.5)	18.1	852.8
Cash Income (Loss), as adjusted, per diluted share[2]	0.69	0.57	(5.23)	0.12	5.92
Comp. & Benefit ratio	51%	53%	54%		

1 Dec 09 Qtr Includes $28M pre-tax real estate loss; Mar 10 Qtr includes $8M pre-tax reversal of real estate reserves
2 See Appendix for GAAP reconciliation

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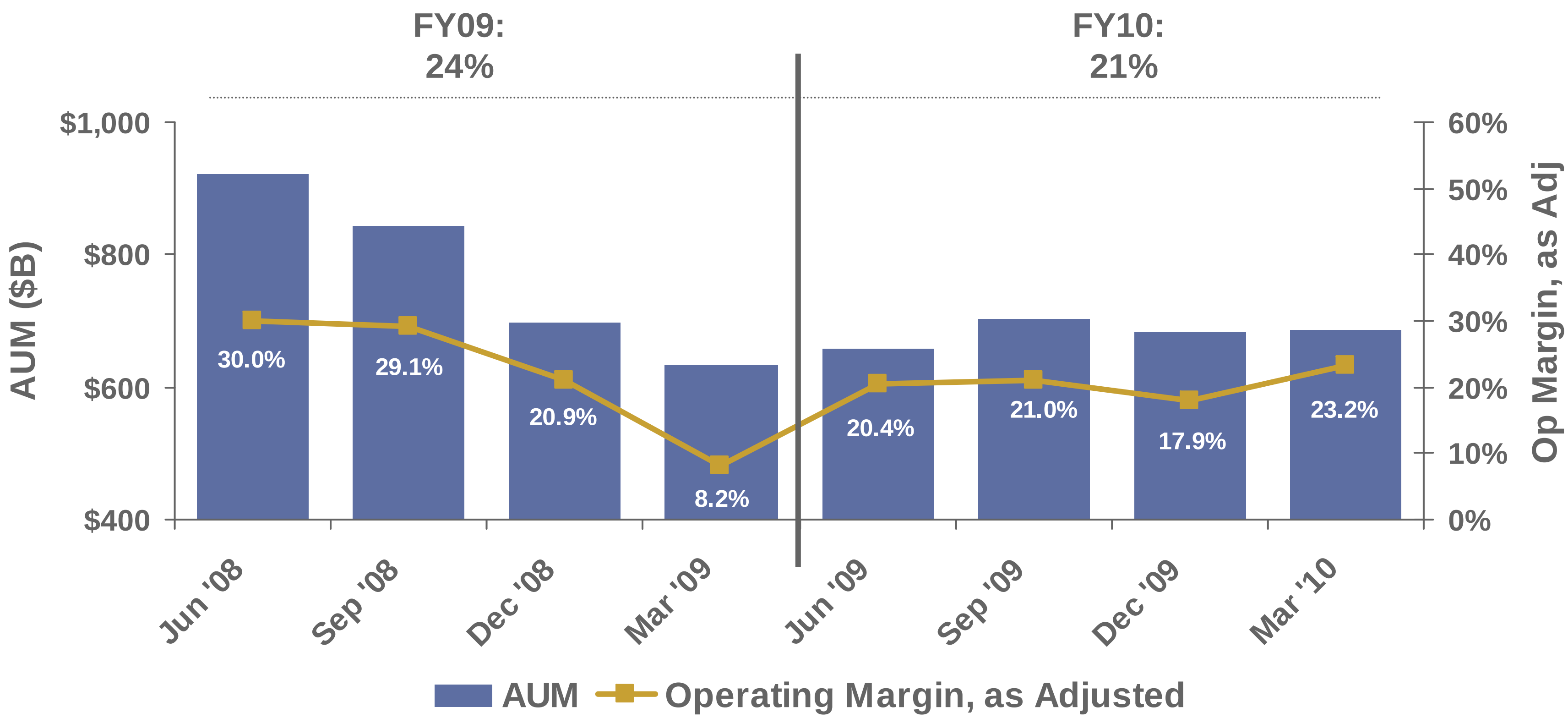
Operating Margin, as Adjusted



- Highest operating margin, as adjusted in 6 quarters

Note: See Appendix for GAAP reconciliation

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Balance Sheet

($ millions)

	Mar 10	Dec 09	Mar 09
Cash & cash equivalents	$ 1,519	$ 1,442	$ 1,134
Intangibles and goodwill	5,218	5,227	5,110
Other assets	1,877	2,432	2,988
Total Assets	$ 8,614	$ 9,101	$ 9,232
Debt	$ 1,420	$ 1,965	$ 2,990
Other liabilities & non controlling interest	1,352	1,351	1,643
Stockholders' equity	5,842	5,785	4,599
Total Liabilities & Stockholders' Equity	$ 8,614	$ 9,101	$ 9,232
Debt to Total Capital Ratio	20%	25%	39%

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Debt Covenant Ratios

($ millions)	Mar 10	Dec 09	Mar 09
Bank Includable Debt	$ 1,544	$ 2,095	$ 2,098
Less: Unrestricted Cash	(1,008)	(928)	(403)
Net Debt [1]	$ 536	$ 1,167	$ 1,695
EBITDA, as adjusted [2]	$ 592	$ 569	$ 943
Interest Expense	80	103	153

Gross Leverage Ratio	2.6	3.7	2.2
Net Leverage Ratio (max 2.5x)[1]	0.9	2.1	1.8
Interest Coverage Ratio (min 4.0x)	7.4	5.5	6.2

[1] Net Leverage Ratio provides credit for the Company's unrestricted cash in excess of subsidiary working capital
[2] Trailing twelve month EBITDA as defined per bank covenants

- Term loan pay down, increased earnings, and lower debt service further improved leverage and interest coverage ratios

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Board Authorization for $1B Common Stock Repurchase

- Have historically maintained a conservative approach to capital management and intend to continue that philosophy which has served us extremely well
- In recognition of improved financial results, strong balance sheet and substantial excess cash, the Board has authorized a stock repurchase of up to $1B
- Intend to deploy a portion of the $1B in excess cash currently on the balance sheet, as well as cash flows over the next several years, to execute up to $1B in stock repurchase
  - Initial repurchase of $300M by Sep 30, 2010
  - Additional $100M by fiscal year end 2011
- Execution of the plan and timing will be revised as needed based on market and company performance, and may be scaled back or accelerated based on actual cash flows and capital needs

Financial Impact of Streamlining Business Model

- Transition of certain shared services to be absorbed by the affiliates and Americas Distribution sharing in revenue on retail-based AUM growth will benefit shareholders by a projected $130M - $150M annually, when fully phased in
  - Approximately half of cost saves realized in FY 2011
- Corporate reduction of approximately 350 positions
- Expect $190M - $210M in restructuring and transition costs over the next 18 months
  - 45-50% related to workforce reduction (retention and severance)
  - 35-40% in transitional support to affiliates as they absorb new expenses
  - 15-20% in real estate and other miscellaneous items
  - Approximately 60% of expenses expected over next 3 quarters
- Expect 6-8% of margin improvement when fully implemented

Achievement of all projected savings and margin improvements, as well as amount of restructuring and transition related costs, will be affected by many factors, including market conditions and other factors affecting the financial results of Legg Mason and the affiliates and the rate of assets under management growth. Actual results may differ materially from projected amounts.

Closing Comments

- Streamlining our business model from a position of strength
  - Affiliates gaining momentum on strong investment results
  - Retail and quasi-retail distribution in the Americas and International delivering value and adding to growth outlook in a meaningful way
  - Shared service transition puts service delivery closer to the clients where it can be managed more effectively
  - In total, we expect these initiatives will significantly reduce cost structure and drive material margin improvement
- Current capital position and strong capital generation will allow for continued investment in and with our affiliates
- Prospects for shareholder value growth through all of these initiatives are very attractive, making repurchasing our own shares a compelling use for some of our excess cash

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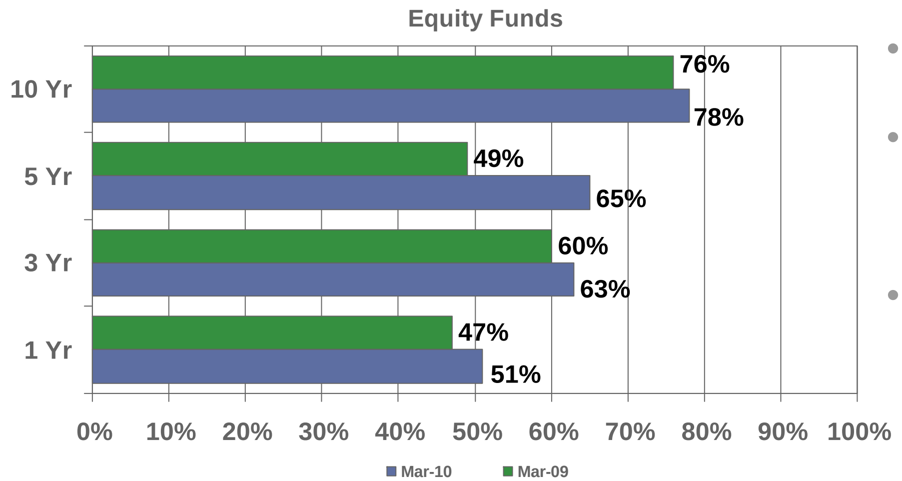
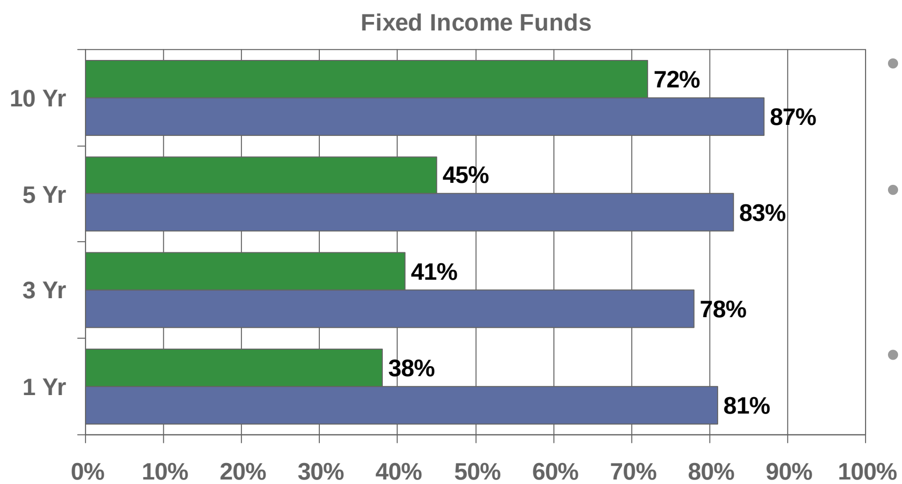
Appendix

Appendix - Long-Term Performance by Asset Class

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



- 47% of Legg Mason's U.S. equity mutual fund assets were rated 4 or 5 stars by Morningstar at March 31, 2010.
- At March 31, 2010, 7 out of 13 funds managed by ClearBridge ranked in the top half of their Lipper category for the 3-year and 5-year periods, 9 out of 13 for the10-year period, and 5 out of 13 for the 1-year period.
- At March 31, 2010, 13 out of 23 funds managed by Royce ranked in the 1st quartile of their Lipper categories for the 1-year period, 17 out of 19 for the 3-year period, 14 out of 15 for the 5-year period, and 8 out of 9 for the 10-year period.



- 49% 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 March 31, 2010.
- At March 31, 2010, 19 out of 21 taxable fixed income funds managed by Western outperformed their Lipper category averages for the 1-year period, 10 out of 21 for the 3-year period, 11 out of 20 for the 5-year period, and 8 out of 16 for the 10-year period.
- At March 31, 2010, all 12 municipal funds managed by Western outperformed for the 3- and 5-year periods, 4 out of 12 for the 1-year period, and 10 out of 11 outperformed for the 10-year period.

[1]As of March 31, 2010, includes open-end, closed-end, and variable annuity funds. Sources: Lipper Inc. and Morningstar

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Appendix - Operating Expenses

($ millions)	Mar '10	Dec '09	% Chg	Mar '09	% Chg
Compensation and benefits	$ 267.3	$ 287.7	(7%)	$ 237.1	13%
Distribution and servicing	167.4	177.7	(6%)	180.6	(7%)
Communications and technology	42.2	39.8	6%	43.8	(4%)
Occupancy	25.5	63.2	(60%)	71.0	(64%)
Amortization of intangible assets	5.7	5.7	0%	8.0	(28%)
Impairment charges	-	-	0%	82.9	(100%)
Other	57.5	37.2	54%	39.1	47%
Total Operating Expenses	$ 565.6	$ 611.3	(7%)	$ 662.5	(15%)

- Decrease in Compensation and benefits and Distribution and servicing costs due to lower revenues
- Occupancy down as a result of lease charges in the previous quarter
- Increase in Other expenses primarily driven by a $19M affiliate investor settlement reserve

Appendix - Compensation and Benefits

($ millions)	Mar 10	% of Net Rev. [1]	Dec 09	% of Net Rev.	$ Change
Salary and incentives	$208.4	42%	$231.6	45%	$ (23.2)
Benefits and payroll taxes	46.1	9%	41.9	8%	4.2
Subtotal Compensation and benefits	**254.5**	**51%**	**273.5**	**53%**	**(19.0)**
Severance	1.6	0%	1.5	0%	0.1
MTM deferred comp. and seed investments	11.2	2%	12.7	3%	(1.5)
Total Compensation and Benefits	$267.3	53%	$287.7	56%	$ (20.4)

- Decrease in Salary and incentives driven by lower revenues and impact of settlement reserve

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

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Appendix – GAAP Reconciliation
Cash Income, as adjusted

($ millions, except per share amounts)	Quarters Ended Mar 10	Quarters Ended Dec 09	Quarters Ended Mar 09	Twelve Months Ended Mar 10	Twelve Months Ended Mar 09
Net Income (Loss) attributable to Legg Mason, Inc.	$ 63.6	$ 44.9	$ (330.2)	$ 204.4	$ (1,967.9)
Plus:					
Amortization of intangible assets	5.7	5.8	8.0	22.8	36.5
Deferred income taxes on intangible assets	33.1	33.9	35.4	136.2	142.5
Deferred income taxes on impairment charges	-	-	(70.3)	-	(444.6)
Imputed interest on convertible debt[1]	8.9	8.6	8.3	34.4	32.3
Cash Income (Loss)	111.3	93.2	(348.8)	397.8	(2,201.2)
Plus (Less):					
Net money market fund support (gains) losses[2]	-	-	367.4	(16.5)	1,376.6
Impairment charges	-	-	82.9	-	1,307.9
Net loss on sale of SIV securities[2]	-	-	(843.0)	-	(1,674.7)
Cash Income (Loss), as adjusted	$ 111.3	$ 93.2	$ (741.5)	$ 381.3	$ (1,191.4)
Net Income (Loss) per Diluted Share attributable to Legg Mason, Inc. common shareholders	$ 0.39	$ 0.28	$ (2.33)	$ 1.32	$ (13.99)
Plus:					
Amortization of intangible assets	0.04	0.03	0.06	0.14	0.26
Deferred income taxes on intangible assets	0.20	0.21	0.25	0.88	1.01
Deferred income taxes on impairment charges	-	-	(0.50)	-	(3.16)
Imputed interest on convertible debt[1]	0.06	0.05	0.06	0.22	0.23
Cash Income (Loss) per Diluted Share	0.69	0.57	(2.46)	2.56	(15.65)
Plus (Less):					
Net money market fund support (gains) losses[2]	-	-	2.59	(0.11)	9.79
Impairment charges	-	-	0.59	-	9.30
Net loss on sale of SIV securities[2]	-	-	(5.95)	-	(11.91)
Cash Income (Loss) per Diluted Share, as adjusted	$ 0.69	$ 0.57	$ (5.23)	$ 2.45	$ (8.47)

[1]Effective April 1, 2009, Legg Mason was reguired by accounting literature 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).

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Appendix – GAAP Reconciliation
Operating Margins

($ millions)	Quarters Ended							
	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
Operating Revenues, GAAP basis	$ 1,054.0	$ 966.1	$ 720.0	$ 617.2	$ 613.1	$ 659.9	$ 690.5	$ 671.4
Less:								
Distribution and servicing expenses	307.8	278.9	202.5	180.6	172.5	174.4	177.7	167.4
Operating Revenues, as adjusted	$ 746.2	$ 687.2	$ 517.5	$ 436.6	$ 440.6	$ 485.5	$ 512.8	$ 504.0
Operating Income (Loss)	$ 228.9	$ 220.2	$ (1,073.0)	$ (45.3)	$ 58.3	$ 77.9	$ 79.2	$ 105.8
Add (Less):								
Gains (losses) on deferred compensation and seed investments	(5.1)	(19.9)	(44.0)	(1.9)	31.4	24.1	12.6	11.2
Impairment charges	-	-	1,225.1	82.9	-	-	-	-
Operating Income, as adjusted	$ 223.8	$ 200.3	$ 108.1	$ 35.7	$ 89.7	$ 102.0	$ 91.8	$ 117.0
Operating margin, GAAP basis	21.7%	22.8%	-149.0%	-7.3%	9.5%	11.8%	11.5%	15.8%
Operating margin, as adjusted	30.0%	29.1%	20.9%	8.2%	20.4%	21.0%	17.9%	23.2%

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Appendix – GAAP Reconciliation
Operating Margins

($ millions)	FY 07	FY 08	FY 09	FY 10
Operating Revenues, GAAP basis	$ 4,343.7	$ 4,634.1	$ 3,357.4	$ 2,634.9
Less:				
Distribution and servicing expenses	1,196.0	1,274.0	970.0	691.9
Operating Revenues, as adjusted	$ 3,147.7	$ 3,360.1	$ 2,387.4	$ 1,943.0
Operating Income (Loss)	$ 1,028.3	$ 1,050.2	$ (669.2)	$ 321.2
Add (Less):				
Gains (losses) on deferred compensation and seed investments	13.7	(8.8)	(71.0)	79.3
Impairment charges	-	151.0	1,308.0	-
Operating Income, as adjusted	$ 1,042.0	$ 1,192.4	$ 567.8	$ 400.5
Operating margin, GAAP basis	23.7%	22.7%	-19.9%	12.2%
Operating margin, as adjusted	33.1%	35.5%	23.8%	20.6%

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Appendix – GAAP Reconciliation
EBITDA, as adjusted

	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
Net income (loss), including non-controlling interest	$ (326.9)	$ 52.3	$ 47.3	$ 46.2	$ 65.1
Income tax provision (benefit)	(364.5)	28.4	27.7	26.0	36.6
Impairment of goodwill and intangible assets	82.9	-	-	-	-
Unrealized (gain) loss on fund support	612.4	(17.6)	(5.6)	-	-
Depreciation and amortization, including stock-based compensation amortization	59.5	47.3	44.0	47.6	46.2
Lease writeoffs, net of cash paid	28.0	(2.6)	(3.2)	20.9	(12.6)
Interest expense	46.9	43.4	28.6	29.2	25.1
Unrealized gain on investments	(4.9)	(19.8)	(6.1)	(4.1)	(4.6)
Other	(0.1)	1.1	5.2	(0.4)	0.7
EBITDA, as adjusted [1]	$ 133.3	$ 132.5	$ 137.9	$ 165.4	$ 156.5

[1] As defined by our bank covenants.

LEGG MASON
GLOBAL ASSET MANAGEMENT