LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason, Inc.

Second Quarter FY 2010 Review

October 22, 2009

Mark R. Fetting

Chairman & CEO

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

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

- First half of year characterized by strong cash income, improved investment performance and profitability
- In fiscal 2Q 2010:
  - Operating revenues $659.9M
  - Operating income $77.9M; operating income, as adjusted[1], $102.0M
    - Operating margin 11.8%; operating margin, as adjusted[1], 21.0%
  - Net income $45.8M or $0.30 per diluted share includes $22M in pre-tax transaction costs related to equity exchange, partially offset by $15M in interest expense reduction resulting from the transaction
  - Cash income, as adjusted[1], $90.0M or $0.59 per diluted share
- In the second half of fiscal 2010, continued focus on improving investment performance, cash income, client flows, debt management and costs & efficiencies

1 See Appendix A for GAAP reconciliation

The Legg Mason Business Model

Affiliates Investing

BATTERYMARCH FINANCIAL MANAGEMENT, INC.
Brandywine GLOBAL
CLEARBRIDGE ADVISORS
LEGG MASON CAPITAL MANAGEMENT
LEGG MASON Global Equities Group
PERMAL
PRIVATE CAPITAL Management
Royce&Associates
WESTERN ASSET

Legg Mason

Distribution
- Americas
- International

and

Shared Services

Legg Mason

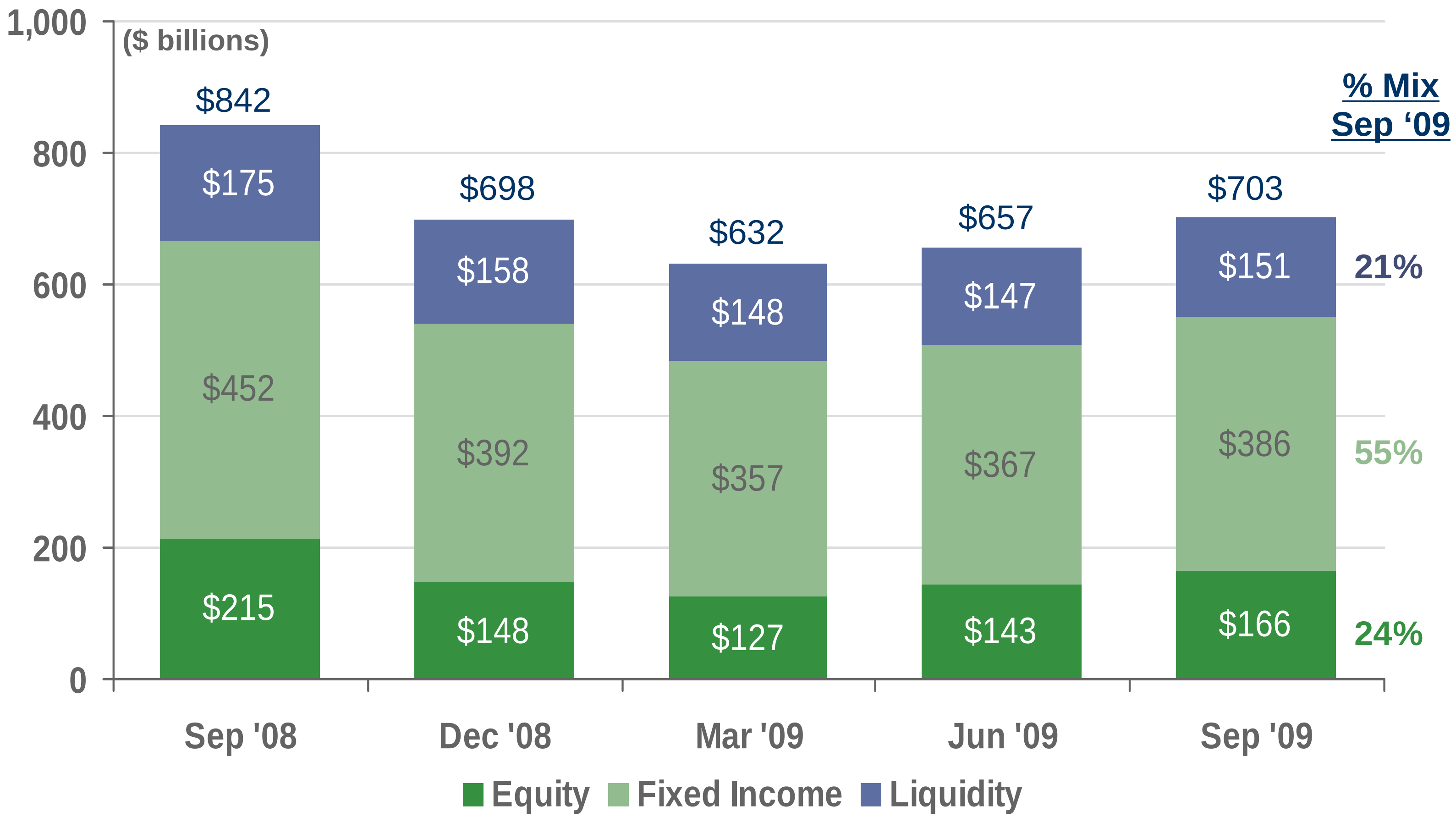
Capital Allocation

and

Mergers & Acquisitions

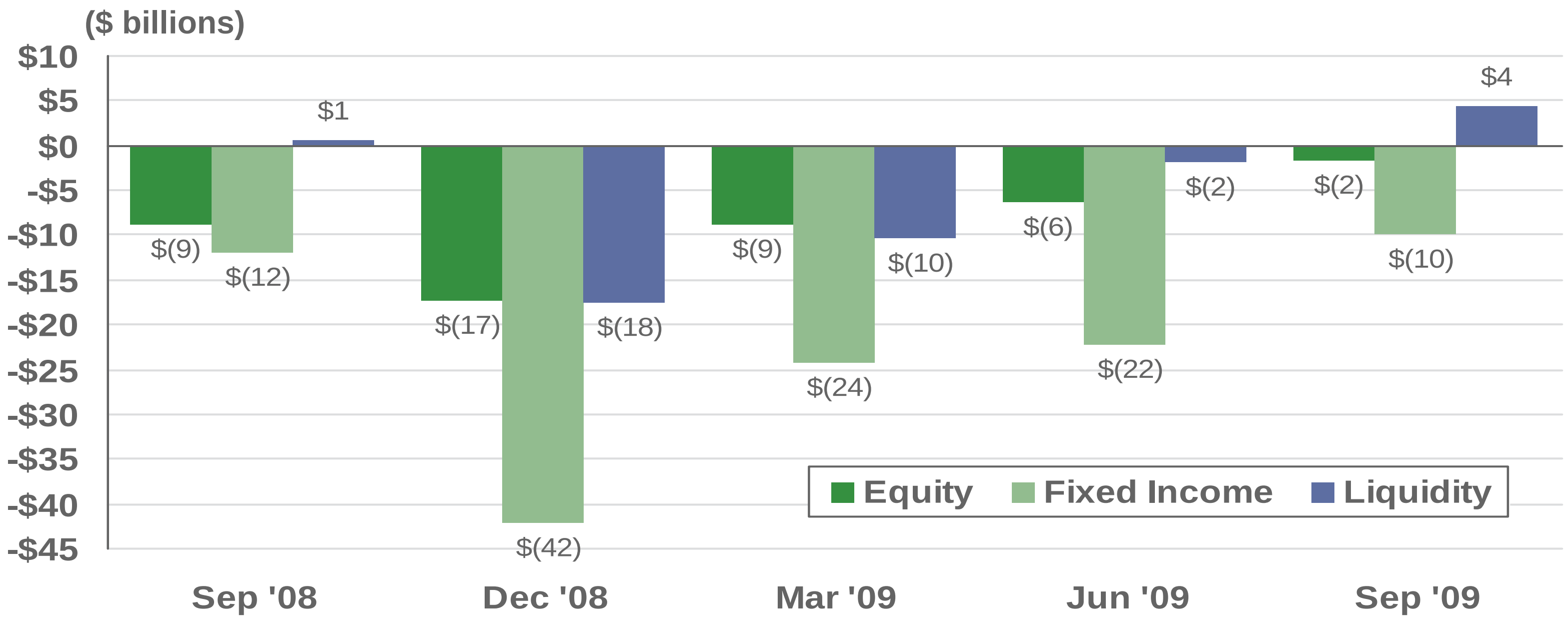
Shareholder Value

Assets Under Management by Asset Class



• Over the past two quarters equity assets as a percent of total AUM has increased from 20% to 24%

Net Flows by Asset Class



Total Net Flows	$(20)	$(77)	$(43)	$(30)	$(8)

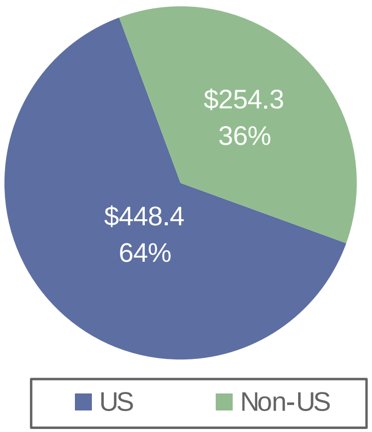
- Equity and Fixed Income net outflows decline 57% from June quarter
- Fixed Income outflows lowest level since Mar 08; Equity outflows lowest since Dec 06
- Liquidity net flows turn positive at $4 billion

Assets Under Management ($ billions)

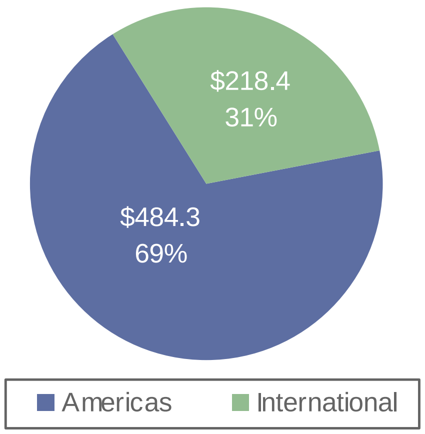
AUM by Affiliate[1]	Sep '09 AUM	Jun '09 AUM	Mar '09 AUM	Vs. Prior Qtr $ Change	Vs. Prior Qtr % Change
Western Asset	$ 505.5	$ 483.7	$ 473.2	$ 21.8	5 %
Permal Group	18.2	17.2	18.5	1.0	6 %
ClearBridge	52.4	47.0	42.7	5.4	11 %
Royce & Associates	28.7	23.3	18.3	5.4	23 %
LM Capital Mgmt	16.8	13.7	12.0	3.1	23 %
Brandywine	29.2	26.3	28.2	2.9	11%
Batterymarch	20.4	17.7	15.4	2.7	15 %

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

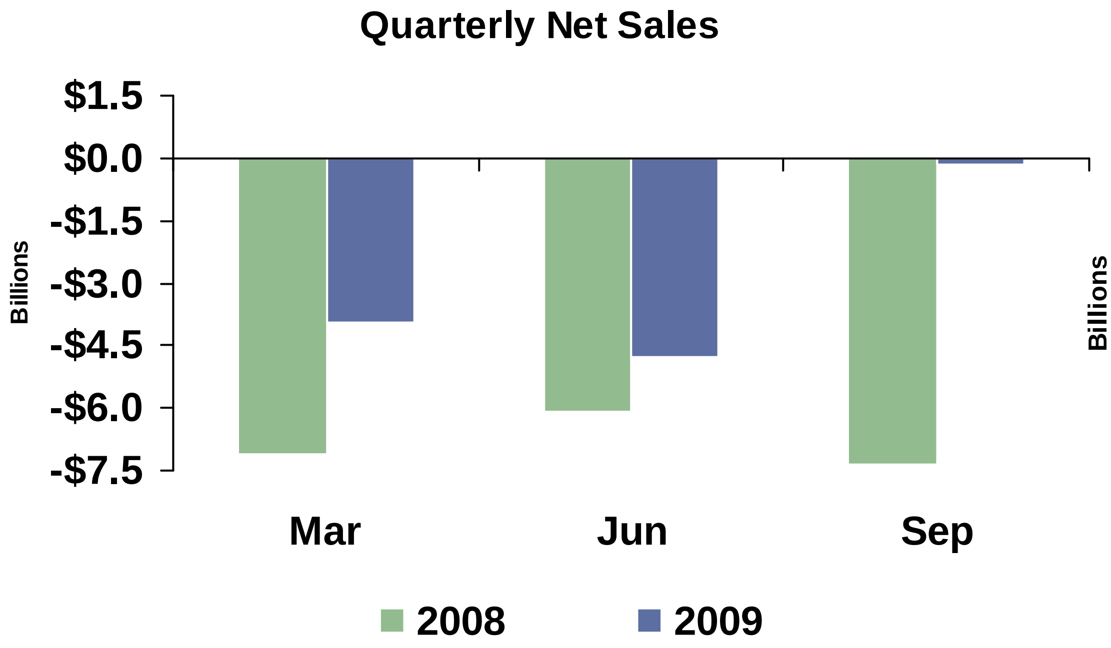
AUM by Client Domicile

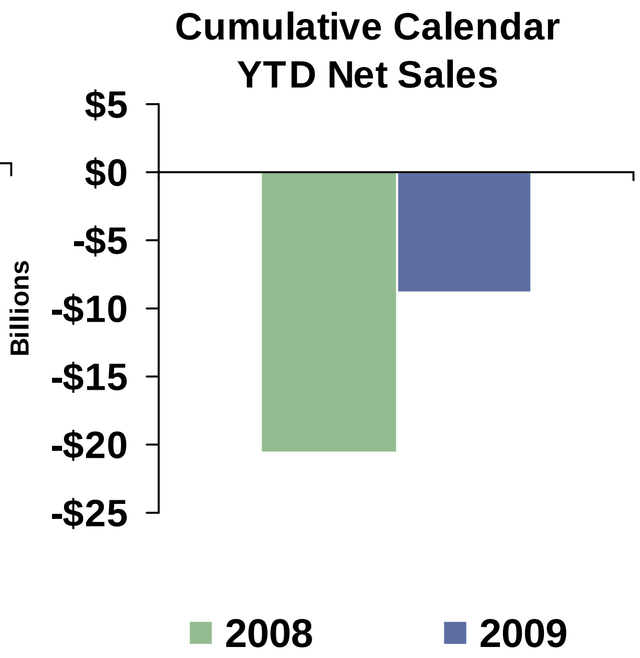


AUM by Division



Americas Distribution Long-Term Sales Trends

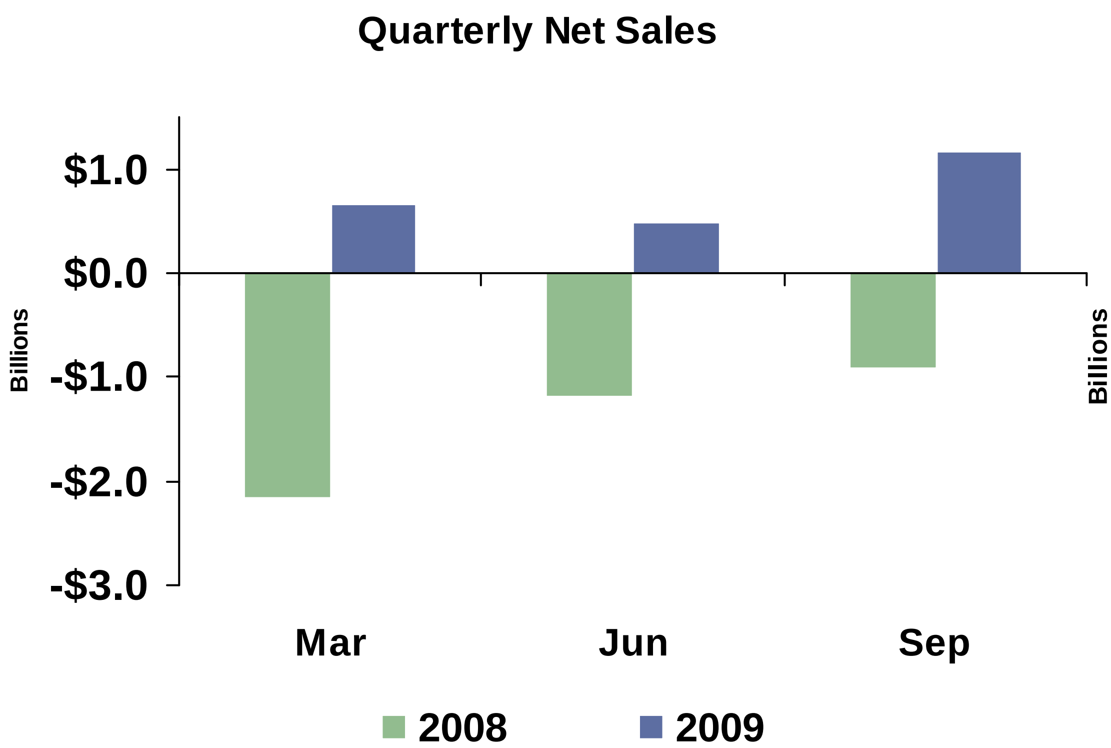


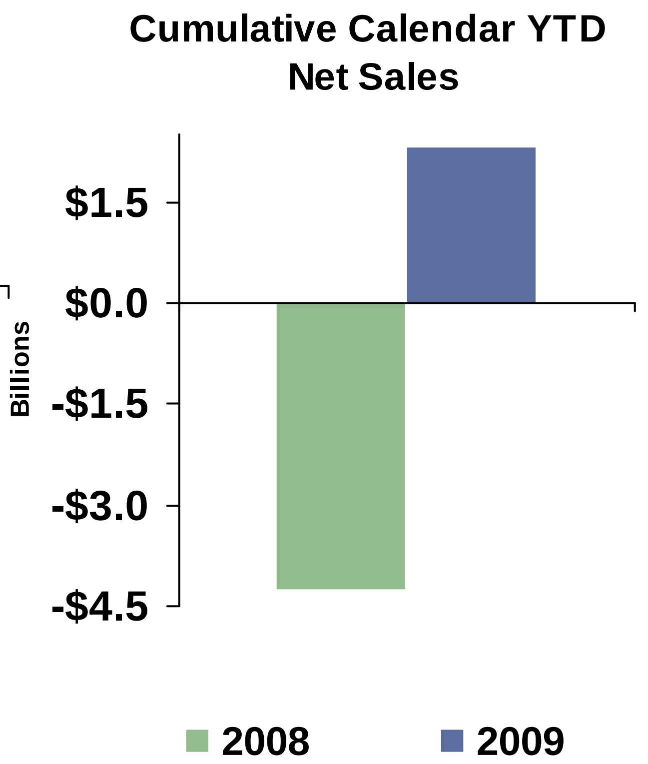


- New sales strategy has improved sales, while at same time redemption rates have declined leading to significantly reduced net outflows
- Domestic long-term net flows have improved versus the same period the previous year in 7 out of 9 months

Represents net sales by Legg Mason's centralized U.S. distribution operations

International Distribution Long-Term Sales Trends



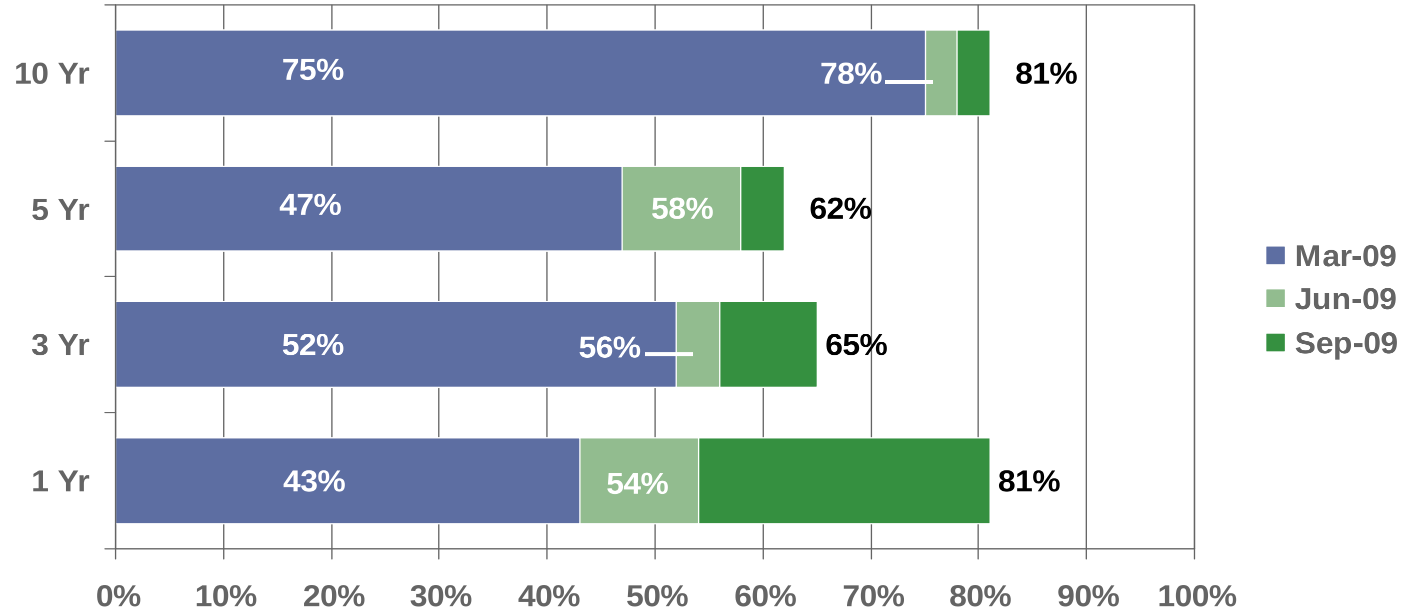


- Net flows from Legg Mason International Distribution have improved versus the same period the previous year in each of the past 9 months
- Six new product launches have delivered $1.6 billion in AUM flows CYTD

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

Long-Term Asset Investment Performance

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



- 53% of Legg Mason's U.S. Mutual fund assets were rated 4 and 5 stars by Morningstar including 91% of Royce's fund assets being rated 4 or 5 stars at September 30, 2009.
- Although 3- and 5-year performance remains challenged, at September 30, 2009, all 9 Western Asset Funds outperformed their benchmarks for the 3-month period, and 8 out of 9 outperformed their benchmarks for the year-to-date and 1-year period.
- Although longer term performance remains challenged, at September 30, 2009, all 6 funds managed by LM Capital Management outperformed their benchmarks and landed in the 1st quartile of their respective Lipper categories for both the 3-month and year-to-date periods.
- At September 30, 2009, 14 out of 15 ClearBridge funds outperformed their benchmarks for the 1-year period and 11 out of 15 for the year-to-date period.

[1] As of September 30, 2009, includes open-end, closed-end, and variable annuity funds.

Business Highlights

- Improving asset mix – Equity represents 24% of AUM
- Increase in Liquidity net inflows during a quarter with record industry MM outflows
- Royce and LM Capital Management positive net flows for the quarter
- Overall net outflows down 73% from FQ1 and down 81% from prior fiscal year-end
- Market capitalization at approximately $5.1 billion from $1.6 billion at March fiscal year-end
- Re-branded and simplified Legg Mason branded retail-oriented fund families into one fund family
- Fund updates
  - Permal closed a fund focused on secondary market hedge fund opportunities
  - The Western Asset Global Corporate Defined Opportunity Fund, Legg Mason's third closed end offering CYTD, was registered with the SEC
  - Legg Mason International Distribution launched two new funds: the LM Capital Management Opportunity Fund managed by LM Capital Management and the Permal Global Absolute Fund

Priorities and Progress

- Improve balance sheet
  - Exchanged over 91% of outstanding equity units
  - Debt to total capital ratio now at 25%
- Continued focus on costs and generating cash
  - Achieved $160 million in expense savings as of FQ1 and improving operating margins
- Engage with affiliates
  - Performance continues to improve
- Growth through distribution and product innovation
  - Net domestic long-term fund sales continue to improve
  - Net international long-term fund sales positive FYTD
- Investment opportunities
  - Actively reviewing a targeted pipeline

Operating Results

($ millions, except per share amounts)	Sep 09 Qtr	Jun 09 Qtr	Sep 08 Qtr	$ Change vs. Jun 09	$ Change vs. Sep 08
Operating Revenues	$ 659.9	$ 613.1	$ 966.1	$ 46.8	$ (306.2)
Operating Expenses	582.0	554.8	745.9	27.2	(163.9)
Operating Income	77.9	58.3	220.2	19.6	(142.3)
Net Income (Loss)	45.8[1]	50.1	(108.7)	(4.3)	154.5
Diluted EPS	0.30	0.35	(0.77)	(0.05)	1.07
Cash Income, as adjusted[2]	90.0	86.8	140.2	3.2	(50.2)
Cash Income, as adjusted, per diluted share[2]	0.59	0.61	0.99	(0.02)	(0.40)
Operating Margin, as adjusted[2]	21.0%	20.4%	29.1%		

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

Operating Expenses

($ millions)	Sep '09	Jun '09	% Chg	Sep '08	% Chg
Compensation and benefits	$ 287.6	$ 268.8	7%	$ 322.2	(11%)
Distribution and servicing	174.4	172.5	1%	279.0	(37%)
Communications and technology	40.5	40.5	0%	49.1	(17%)
Occupancy	35.7	32.6	10%	33.7	6%
Amortization of intangible assets	5.7	5.6	1%	9.6	(41%)
Other	38.1	34.8	10%	52.3	(27%)
Total Operating Expenses	$ 582.0	$ 554.8	5%	$ 745.9	(22%)

- Total operating expenses increased $27.2 million or 5%, driven by compensation and benefits as a result of higher revenues
- Occupancy expense reflects increased costs related to relocation of corporate headquarters, including approximately $1.5 million in duplicate rent
- Other expense increase driven by seasonal annual costs for promotional and governance related expenses incurred during the quarter

Compensation and Benefits

($ millions)	Sep '09	% of Net Rev. [1]	Jun '09	% of Net Rev.	$ Change
Salary and incentives	$ 221.1	46%	$ 187.2	43%	$ 33.9
Benefits and payroll taxes	39.9	8%	45.7	10%	(5.8)
Subtotal Compensation and benefits	**261.0**	**54%**	**232.9**	**53%**	**28.1**
Severance	2.5	1%	4.5	1%	(2.0)
MTM deferred comp. and seed investments	24.1	4%	31.4	7%	(7.3)
Total Compensation and Benefits	$ 287.6	59%	$ 268.8	61%	$ 18.8

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

- Increase in salary and incentives driven by:
  - Higher revenues at investment management affiliates
  - Reduced non-compensation expenses within our investment management affiliates
  - Increased sales by retail distribution groups
- Seasonal reduction in payroll taxes

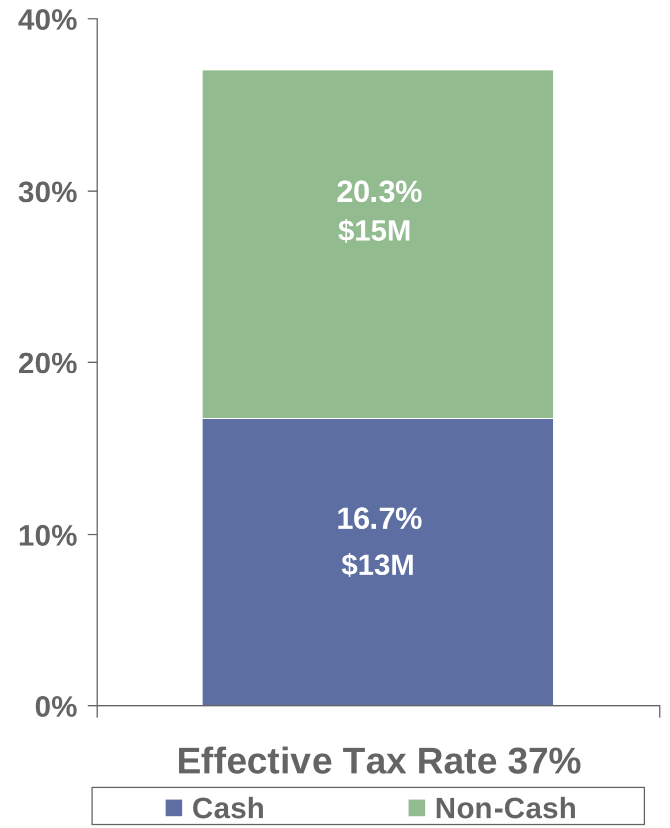
Balance Sheet

($ millions)	Sep '09	Jun '09	Sep '08
Cash & cash equivalents[1]	$ 1,579	$ 1,582	$ 3,068
Intangibles and goodwill	5,215	5,127	6,593
Other assets	2,403	2,336	2,787
Total Assets	$ 9,197	$ 9,045	$ 12,448
Debt	$ 1,957	$ 2,996	$ 3,229
Other liabilities & non controlling interest	1,510	1,349	2,711
Stockholders' equity	5,730	4,700	6,508
Total Liabilities & Stockholders' Equity	$ 9,197	$ 9,045	$ 12,448

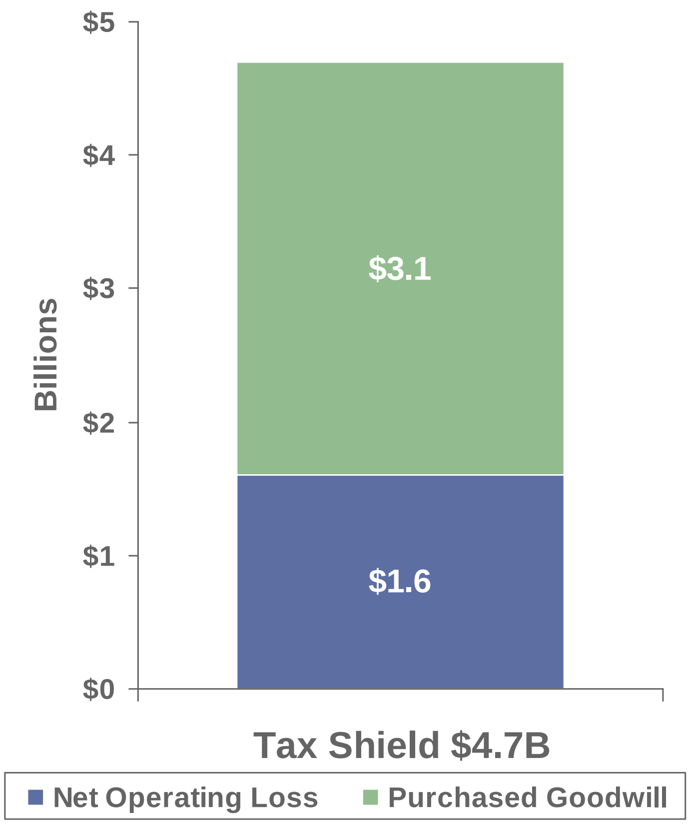
[1] Includes restricted cash

- $1.1 billion in excess cash
- Stockholders' Equity up 22% due to exchange of 91% of equity units in August 2009.

Tax Provision Analysis



- Income tax provision for the quarter at $28 million, includes $15 million in non-cash taxes due to deferred tax benefit utilization



- Future income of $4.7 billion is sheltered against federal tax subject to usage of NOL carryforward and amortization of purchased goodwill

Data for Quarter End September 2009

Closing Comments

- AUM up 7% and revenue up 8%, sequentially
- Continued positive net income and $177 million in cash income, as adjusted YTD
- Focus on operating margin
- Decline in long term net outflows, combined with positive liquidity net inflows
- Performance continues to improve; 81% of long-term US funds beating their Lipper category average for the 1-year and 10-year periods
- Making progress on strategic priorities

Appendix A – GAAP Reconciliation
Operating and Pre-tax Margins

($ millions)	Quarters Ended Sep 09	Jun 09	Sep 08
Operating Revenues, GAAP basis	$ 659.9	$ 613.1	$ 966.1
Less:			
Distribution and servicing expenses	174.4	172.5	278.9
Operating Revenues, as adjusted	$ 485.5	$ 440.6	$ 687.2
Operating Income	$ 77.9	$ 58.3	$ 220.2
Add (Less):			
Gains (losses) on deferred compensation and seed investments	24.1	31.4	(19.9)
Operating Income, as adjusted	$ 102.0	$ 89.7	$ 200.3
Operating margin, GAAP basis	11.8%	9.5%	22.8%
Operating margin, as adjusted	21.0%	20.4%	29.1%
Income (Loss) from Operations before Income Tax Provision (Benefit), GAAP basis	$ 75.0	$ 80.7	$ (167.9)
Pre-tax profit margin, GAAP basis	11.4%	13.2%	(17.4%)
Pre-tax profit margin, as adjusted	15.4%	18.3%	(24.4%)

Appendix A (continued) – GAAP Reconciliation
Cash Income, as adjusted

($ millions, except per share amounts)	Quarters Ended Sep 09	Jun 09	Sep 08
Net Income (Loss) attributable to Legg Mason, Inc.	$ 45.8	$ 50.1	$ (108.7)
Plus:			
Amortization of intangible assets	5.6	5.6	9.6
Deferred income taxes on intangible assets	34.0	35.3	40.2
Imputed interest on convertible debt(1)	8.6	8.3	8.0
Cash Income (Loss)	$ 94.0	$ 99.3	$ (50.9)
Plus (Less):			
Net money market fund support (gains) losses(2)	(4.0)	(12.5)	191.1
Cash Income, as adjusted	$ 90.0	$ 86.8	$ 140.2
Net Income (Loss) per Diluted Share attributable to Legg Mason, Inc. common shareholders	$ 0.30	$ 0.35	$ (0.77)
Plus:			
Amortization of intangible assets	0.04	0.04	0.07
Deferred income taxes on intangible assets	0.22	0.24	0.28
Imputed interest on convertible debt(1)	0.05	0.06	0.06
Cash Income (Loss) per Diluted Share	$ 0.61	$ 0.69	$ (0.36)
Plus (Less):			
Net money market fund support (gains) losses(2)	(0.02)	(0.08)	1.35
Cash Income per Diluted Share, as adjusted	$ 0.59	$ 0.61	$ 0.99

(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).