

LEGG MASON INC
Form 424B3
August 12, 2009
Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-160593

PROSPECTUS

LEGG MASON, INC.
OFFER TO EXCHANGE
SHARES OF COMMON STOCK PLUS CASH
FOR
UP TO 21,850,000 UNITS OF ITS OUTSTANDING EQUITY UNITS
IN THE FORM OF CORPORATE UNITS, STATED AMOUNT \$50.00 PER UNIT
(CUSIP No. 524901303)

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:01 A.M., NEW YORK CITY TIME, ON AUGUST 12, 2009, UNLESS THE OFFER IS EXTENDED BY US (SUCH DATE AND TIME, AS THE OFFER MAY BE EXTENDED, THE EXPIRATION DATE). TENDERS MAY NOT BE WITHDRAWN AFTER THE CORPORATE UNITS HAVE BEEN ACCEPTED FOR EXCHANGE.

Upon the terms and subject to the conditions set forth in this prospectus (as supplemented or amended, this *prospectus*) and the related letter of transmittal (as supplemented or amended, the *letter of transmittal*), Legg Mason, Inc. (*Legg Mason*) is offering to exchange up to 21,850,000, or 95%, of its outstanding Equity Units, stated amount \$50.00 per unit (the *Equity Units*), in the form of Corporate Units (the *Corporate Units*), comprised of (i) a purchase contract (the *purchase contract*) obligating the holder to purchase from Legg Mason shares of Legg Mason s common stock, par value \$0.10 per share (the *common stock*), and (ii) a 1/20 or 5.0% undivided beneficial ownership interest in \$1,000 principal amount of Legg Mason s 5.6% senior notes due June 30, 2021 (the *senior notes*), for 0.8881 of a share of Legg Mason common stock and \$6.25 in cash per Corporate Unit (the *offer consideration*).

The number of validly tendered and not withdrawn Corporate Units Legg Mason will accept in the offer will be prorated if (a) more than 21,850,000 Corporate Units are tendered or (b) Legg Mason shall have concluded based on discussions with the New York Stock Exchange that the Corporate Units are likely to be de-listed as a result of the acceptance by Legg Mason of all Corporate Units validly tendered and not withdrawn in the offer.

Legg Mason is only offering to exchange Corporate Units in the offer. Legg Mason is not offering to exchange any Equity Units in the form of Treasury Units (*Treasury Units*).

The closing of the offer is conditioned upon the satisfaction or waiver of certain conditions. See *Description of the Offer* *Conditions to the Offer*.

Edgar Filing: LEGG MASON INC - Form 424B3

As of August 3, 2009, 23,000,000 Corporate Units were outstanding. The Corporate Units are listed for trading on the New York Stock Exchange under the symbol LMI. Our common stock is traded on the New York Stock Exchange under the symbol LM. The last reported sale price of our common stock on August 6, 2009, was \$28.25 per share. We expect that the shares of our common stock to be issued in the exchange offer will be approved for listing on the New York Stock Exchange, subject to official notice of the issuance.

You should carefully consider the Risk Factors beginning on page 13 of this prospectus before you decide whether or not to participate in the offer.

You must make your own decision whether to tender in the exchange offer, and, if so, the number of Corporate Units to tender. Neither we, the dealer managers, the information and exchange agent nor any other person is making any recommendation as to whether or not you should tender your Corporate Units for exchange in the exchange offer.

We are not asking you for a proxy and you are requested not to send us a proxy.

Neither the offer nor the common stock portion of the offer consideration offered hereby have been approved or disapproved by the Securities and Exchange Commission (the SEC) or any state securities commission, nor has the SEC or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is unlawful and is a criminal offense in the United States.

The dealer managers for the exchange offer are:

Citi
Structuring Agent

Banc of America Securities LLC

J.P. Morgan

THE DATE OF THIS PROSPECTUS IS AUGUST 12, 2009

Table of Contents

Table of Contents

	Page
<u>Forward-Looking Statements</u>	ii
<u>Available Information</u>	ii
<u>Documents Incorporated by Reference</u>	iv
<u>Summary</u>	1
<u>Questions and Answers About the Exchange Offer</u>	7
<u>Risk Factors</u>	13
<u>Use of Proceeds</u>	27
<u>Capitalization</u>	27
<u>Ratio of Earnings to Fixed Charges</u>	28
<u>Selected Consolidated Financial and Operating Data</u>	29
<u>Price Range of Common Stock and Dividend Policy</u>	31
<u>Description of the Offer</u>	32
<u>Comparison of Rights of Holders of Corporate Units and Holders of Legg Mason Common Stock</u>	41
<u>Effects of the Offer on the Market for Corporate Units; Registration under the Exchange Act; New York Stock Exchange Listing</u>	45
<u>Description of Capital Stock</u>	46
<u>Material U.S. Federal Income Tax Considerations</u>	50
<u>Interests of Directors and Officers</u>	57
<u>Dealer Managers and Information and Exchange Agent</u>	58
<u>Legal Matters</u>	59
<u>Experts</u>	60
<u>Miscellaneous</u>	61

We are incorporating by reference into this prospectus important business and financial information that is not included in or delivered with this prospectus. This information is available without charge to security holders upon written or oral request. Requests should be directed to Legg Mason, Inc., 100 International Drive, Baltimore, MD 21202, Attn: Corporate Secretary, (410) 539-0000 or (877) 534-4627. **In order to ensure timely delivery of such documents, security holders must request this information no later than five business days before the date they must make their investment decision. Accordingly, any request for documents should be made by August 4, 2009 to ensure timely delivery of the documents prior to the expiration of the exchange offer.**

You should rely only on the information contained or incorporated by reference in this document. We have not authorized anyone to provide you with information that is different. You should assume that the information contained or incorporated by reference in this prospectus is accurate only as of the date of this prospectus or the date of the document incorporated by reference, as applicable. We are not making an offer of the securities included in the offer consideration in any jurisdiction where the offer is not permitted.

Table of Contents

FORWARD-LOOKING STATEMENTS

We have made in this prospectus, and from time to time may otherwise make in our public filings, press releases and statements by our management, forward-looking statements, including information relating to anticipated growth in revenues or earnings per share, anticipated changes in our business or in the amount of our client assets under management (AUM), anticipated future performance of our business, anticipated future investment performance of our subsidiaries, our expected future net client cash flows, anticipated expense levels, changes in expenses, the expected effects of acquisitions and expectations regarding financial market conditions. The words or phrases can be, may be, expects, may affect, may depend, believes, estimate, project, anticipate and similar words and phrases are intended to identify such forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties and we caution readers that any forward-looking information provided by or on behalf of Legg Mason is not a guarantee of future performance.

Actual results may differ materially from those in forward-looking information as a result of various factors, some of which are beyond our control, including but not limited to those discussed below and those discussed under the heading Risk Factors and elsewhere in this prospectus and our other public filings, press releases and statements by our management. Due to such risks, uncertainties and other factors, we caution each person receiving such forward-looking information not to place undue reliance on such statements. Further, such forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligations, except as required by law in connection with the offer, to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

Our future revenues may fluctuate due to numerous factors, such as: the total value and composition of AUM; the volatility and general level of securities prices and interest rates; the relative investment performance of company-sponsored investment funds and other asset management products compared with competing offerings and market indices; investor sentiment and confidence; general economic conditions; our ability to maintain investment management and administrative fees at current levels; competitive conditions in our business; the ability to attract and retain key personnel and the effects of acquisitions, including prior acquisitions. Our future operating results are also dependent upon the level of operating expenses, which are subject to fluctuation for the following or other reasons: variations in the level 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; variations in expenses and capital costs, including depreciation, amortization and other non-cash charges incurred by us to maintain our administrative infrastructure; 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 effects of acquisitions and dispositions.

Our business is also subject to substantial governmental regulation and changes in legal, regulatory, accounting, tax and compliance requirements that may have a substantial effect on our business and results of operations.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form S-4 under the Securities Act of 1933, as amended (the *Securities Act*), to register the shares of our common stock offered by this prospectus. This prospectus does not contain all of the information included in the registration statement and the exhibits to the registration statement. We strongly encourage you to read carefully the registration statement and the exhibits to the registration statement.

Any statement made in this prospectus concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

Table of Contents

We currently file reports and other information with the SEC in accordance with the Securities Exchange Act of 1934, as amended (the *Exchange Act*). Such reports and other information (including the documents incorporated by reference into this prospectus) may be inspected and copied at the Public Reference Room of the SEC at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a site on the World Wide Web (<http://www.sec.gov>) that contains reports, proxy statements and other information regarding companies like Legg Mason that file electronically with the SEC.

Copies of the materials referred to in the preceding paragraph, as well as copies of this prospectus and any current amendment or supplement to the offer, may also be obtained from the information and exchange agent at its address set forth on the back cover of this prospectus.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this document, except for any information that is superseded by subsequently incorporated documents or by information that is included directly in this prospectus.

Because we are incorporating by reference future filings with the SEC, this prospectus is continually updated and filings may modify or supersede some of the information included or incorporated in this prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus or in any document previously incorporated by reference have been modified or superseded. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the exchange offer described herein has been completed:

Our Annual Report on Form 10-K for the year ended March 31, 2009, which we filed on May 29, 2009, including portions of the proxy statement filed on June 22, 2009 in connection with the 2009 annual meeting of stockholders to the extent specifically incorporated by reference therein, as amended by our Current Report on Form 8-K, which we filed on August 5, 2009;

Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which we filed on August 5, 2009;

Our Current Reports on Form 8-K filed on June 10, 2009 and August 5, 2009; and

The description of our common stock contained in Amendment No. 6 to our Registration Statement on Form 8-A, filed on September 29, 2006 and any amendment or report filed under the Exchange Act for the purpose of updating such description. We do not incorporate by reference documents or information furnished to, but not filed with, the SEC.

The information and exchange agent will provide without charge to each person to whom this prospectus is delivered upon the request of such person, a copy of any or all of the documents incorporated herein by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into such documents). Requests for such documents should be directed to the information and exchange agent at its address set forth on the back cover of this prospectus.

Table of Contents

SUMMARY

This summary highlights certain significant aspects of Legg Mason's business contained elsewhere or incorporated by reference in this prospectus. As a result, it does not contain all of the information that you should consider before making a decision as to whether or not to participate in the exchange offer. You should carefully read this entire prospectus and the documents incorporated into it by reference, including the Risk Factors section and the financial data and related notes, before making your decision. Except as otherwise specified, the terms Legg Mason, the Company, we, our, ours and us refer to Legg Mason, Inc. and its subsidiaries and common stock refers to our common stock, \$0.10 par value per share.

Legg Mason

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 operate our business as two divisions: Americas and International. Within each division, we provide services through a number of asset managers, each of which is an individual business that generally markets its products and services under its own brand name and, in many cases, distributes retail products and services through a centralized retail distribution network.

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 broker-dealer businesses to concentrate on its asset management business.

Purpose of the Exchange Offer

The purpose of this exchange offer is to increase our equity capital levels and reduce the amount of our outstanding debt and related interest expense. We do not believe there is a reasonable likelihood that the offer will, and it is not the purpose of the offer to, either directly or indirectly, cause the Corporate Units to be de-listed from the New York Stock Exchange.

Sources of Payment of the Offer Consideration

Assuming the exchange offer is subscribed in full and 21,850,000 Corporate Units are validly tendered and accepted for exchange, we will need approximately \$136.6 million in cash to fund the cash portion of the offer consideration. We will use cash on hand to make these payments. There are no alternative financing arrangements for the exchange offer. The shares of our common stock to be issued in the exchange offer are available from our authorized but unissued shares of common stock.

Table of Contents

Summary Terms of the Exchange Offer

The following summary is provided solely for the convenience of holders of Corporate Units. This summary is not intended to be complete and is qualified in its entirety by reference to, and should be read in conjunction with, the information appearing elsewhere or incorporated by reference in this prospectus. Holders of Corporate Units are urged to read this prospectus in its entirety.

Offeror Legg Mason Inc., a Maryland corporation.

Securities Subject to the Offer Up to 21,850,000, or 95%, of our Corporate Units.

The Offer We are offering to exchange up to 21,850,000 of our outstanding Corporate Units held by all holders for the offer consideration of 0.8881 of a share of our common stock and \$6.25 in cash per Corporate Unit upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal. The offer is not conditioned on any minimum number of Corporate Units being tendered.

We will not make a separate payment for accrued and unpaid interest or accrued and unpaid contract adjustment payments in respect of tendered Corporate Units.

We will not issue fractional shares of our common stock in the exchange offer, and cash will be paid in lieu of any fractional shares. See Description of the Offer Terms of the Offer.

Proration of Tendered Corporate Units If more than an aggregate of 21,850,000 Corporate Units are validly tendered and not withdrawn prior to the expiration date, we will accept an aggregate of not more than 21,850,000 Corporate Units from all holders who validly tender Corporate Units, prorated among the tendering holders. If we conclude based on discussions with the New York Stock Exchange that the Corporate Units are likely to be de-listed as a result of our acceptance of all Corporate Units validly tendered and not withdrawn in the offer, we will accept a pro rata number of the Corporate Units tendered in the offer to ensure that the Corporate Units continue to be listed on the New York Stock Exchange. Any Corporate Units tendered but not accepted because of proration will be returned to you. See Description of the Offer Priority of Exchanges and Proration.

Accrued and Unpaid Contract Adjustment Payments with respect to the Purchase Contracts and Accrued and Unpaid Interest Payments with respect to the Senior Notes The only cash component of the offer consideration will be \$6.25 per Corporate Unit. We will not make a separate payment for accrued and unpaid contract adjustment payments or accrued and unpaid interest payments. See Description of the Offer Accrued and Unpaid Interest and Contract Adjustment Payments.

Table of Contents

Holders Eligible to Participate in the Offer	All holders of the Corporate Units are eligible to participate in the offer. See Description of the Offer Terms of the Offer.
Market Value of the Corporate Units	The Corporate Units are listed and traded on the New York Stock Exchange under the symbol LMI. On August 6, 2009, the last reported sale price per Corporate Unit was \$31.33. Legg Mason urges you to obtain current market price information for the Corporate Units before deciding whether to participate in the offer. For trading information regarding such securities, you may contact the information and exchange agent at the telephone number set forth on the back cover of this prospectus. See Description of the Offer Market and Trading Information.
Treasury Units	Legg Mason is not offering to purchase any Treasury Units. If you own Treasury Units and you desire to participate in the offer, you may recreate Corporate Units from your Treasury Units, and then tender the recreated Corporate Units. You may contact the information and exchange agent at the telephone number set forth on the back cover of this prospectus for more information on how to recreate Corporate Units from Treasury Units in order to participate in the offer. See Description of the Offer Terms of the Offer.
Expiration Date	The offer will expire at 12:01 a.m., New York City time, on August 12, 2009, unless extended by us (such date and time, as the same may be extended, the <i>expiration date</i>). We, in our sole discretion, may extend the expiration date for the offer for any purpose, including in order to permit the satisfaction or waiver of any or all conditions to the offer. See Description of the Offer Expiration Date and Description of the Offer Extension, Termination or Amendment.
Guaranteed Delivery Procedures	If you wish to tender your Corporate Units and you cannot deliver your required documents to the information and exchange agent on time, you may tender your Corporate Units according to the guaranteed delivery procedures described under the caption Description of the Offer Procedures for Tendering Corporate Units Guaranteed Delivery.
Withdrawal	You may withdraw previously tendered Corporate Units at any time before the expiration date. In addition, you may withdraw any Corporate Units that you tender that are not accepted by us for exchange after the expiration of 40 business days after the commencement of the offer.

Table of Contents

To withdraw previously-tendered Corporate Units, you are required to submit a notice of withdrawal to the information and exchange agent, in accordance with the procedures described herein and in the letter of transmittal. See Description of the Offer Withdrawal of Tenders.

Settlement Date The settlement date of the offer will be promptly following the expiration date.

Purpose of the Offer We are making this offer to increase our equity capital levels and reduce the amount of our outstanding debt and related interest expense. See Summary Purpose of the Offer.

Conditions to the Offer Legg Mason's obligation to accept for exchange Corporate Units validly tendered and not validly withdrawn is subject to, and conditioned upon, the satisfaction of, or where applicable, the waiver of, the following:

the effectiveness of the registration statement of which this prospectus forms a part;
and

the other conditions described in Description of the Offer Conditions to the Offer.

The exchange offer is not conditioned upon any minimum number of Corporate Units being tendered.

Amendment and Termination Legg Mason has the right to terminate or withdraw, in its sole discretion, the offer at any time and for any reason if the conditions to the offer are not met by the expiration date. Legg Mason reserves the right, subject to applicable law, (i) to waive any and all of the conditions of the offer on or prior to the expiration date and (ii) to amend the terms of the offer. In the event that the offer is terminated, withdrawn or otherwise not consummated on or prior to the expiration date, no consideration will be paid or become payable to holders who have properly tendered their Corporate Units pursuant to the offer. In any such event, the Corporate Units previously tendered pursuant to the offer will be promptly returned to the tendering holders. See Description of the Offer Extension, Termination or Amendment.

How to Tender Corporate Units If your Corporate Units are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, you should contact that registered holder promptly and instruct him, her or it to tender your Corporate Units on your behalf. If you are a Depository Trust Company (DTC) participant, you may electronically transmit your acceptance through DTC's Automated Tender Offer Program (ATOP). See Description of the Offer Procedures for Tendering Corporate Units. For further information on how to tender Corporate Units, contact the information and exchange agent at the telephone number set forth on the back cover of this prospectus or consult your broker, dealer, commercial bank, trust company or other nominee for assistance.

Table of Contents

Risks of Failure to Tender

Corporate Units not exchanged in the offer will remain outstanding after the consummation of the offer. If we become subject to a bankruptcy or similar proceeding prior to the maturity of the senior notes, you may ultimately receive less than the cash amount you would have received had you tendered your Corporate Units for the offer consideration. In addition, if a sufficiently large number of Corporate Units do not remain outstanding after the offer, the trading market for the remaining Corporate Units may be less liquid and more sporadic, potentially resulting in a market price for the Corporate Units that is lower or more volatile. For a further description of the risks of failing to exchange your Corporate Units, see [Risk Factors](#) [Risks Related to Holding Corporate Units after the Exchange Offer](#).

No Appraisal Rights

No appraisal or dissenters' rights are available to holders of the Corporate Units under applicable law. See [Description of the Offer](#) [Terms of the Offer](#).

Risk Factors

Your decision whether to participate in the offer and to exchange the Corporate Units for the offer consideration will involve risk. You should be aware of and carefully consider the risk factors set forth in [Risk Factors](#), along with all of the other information provided or referred to in this prospectus and the documents incorporated by reference herein, before deciding whether to participate in the offer.

Market; Trading

Our common stock and the Corporate Units are traded on the New York Stock Exchange under the symbols [LM](#) and [LMI](#), respectively. The last reported sale prices of our common stock and Corporate Units on August 6, 2009, were \$28.25 and \$31.33, respectively. We expect that the shares of our common stock to be issued in the exchange offer will be approved for listing on the New York Stock Exchange, subject to official notice of the issuance.

Material U.S. Federal Income Tax Considerations

The exchange of a Corporate Unit for shares of our common stock plus cash pursuant to the exchange offer will be a taxable event for U.S. federal income tax purposes, subject to potential nonrecognition treatment with respect to the senior note under the rules governing corporate recapitalizations. Very generally, gain or loss will be separately calculated with respect to the senior note and purchase contract comprising each Corporate Unit. The manner in which such gain or loss is calculated, however, is unclear due to the absence of authority addressing the same or substantially similar transactions. We intend to treat the exchange of your Corporate Units for shares of our common stock plus cash pursuant to the exchange offer as a termination of the purchase contract for an amount deemed paid to us reflecting the relief of your obligation under the purchase contract and a retirement of the senior note in exchange for common stock, cash (other than the portion of such cash that is properly allocable to the purchase contract, including accrued and unpaid contract adjustment payments) and the deemed amount paid to us reflecting the relief of your obligation under the purchase contract. For a summary of the

Table of Contents

material U.S. federal income tax considerations of the offer, which is based on the opinion of Shearman & Sterling LLP, our federal tax counsel, see Material U.S. Federal Income Tax Considerations. You should consult your own tax advisor for a full understanding of the tax consequences of participating in the offer.

Dealer Managers

Citigroup Global Markets Inc., Banc of America Securities LLC and J.P. Morgan Securities Inc. are serving as dealer managers in connection with the exchange offer. The Dealer Managers' contact information appears on the back cover of this prospectus.

Brokerage Commissions

No brokerage commissions are payable by the holders of the Corporate Units to the dealer managers, the information and exchange agent or us. If your Corporate Units are held through a broker or other nominee who tenders the Corporate Units on your behalf, your broker or nominee may charge you a commission for doing so. You should consult with your broker or nominee to determine whether any charges will apply. See Description of the Offer.

Information and Exchange Agent

MacKenzie Partners, Inc. is the information and exchange agent for the offer. Its address and telephone numbers are listed on the back cover page of this prospectus. See Dealer Managers and Information and Exchange Agent.

Further Information

If you have questions about the terms of the exchange offer, please contact the dealer managers. If you have questions regarding the procedures for tendering Corporate Units in the exchange offer or require assistance in tendering your Corporate Units, please contact the information and exchange agent. The contact information for the dealer managers and the information and exchange agent are set forth on the back cover page of this prospectus. See also Available Information.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFER

These answers to questions that you may have as a holder of our Corporate Units are highlights of selected information included elsewhere or incorporated by reference in this prospectus. To fully understand the exchange offer and the other considerations that may be important to your decision about whether to participate in it, you should carefully read this prospectus in its entirety, including the section entitled Risk Factors, as well as the information incorporated by reference in this prospectus. See Available Information and Documents Incorporated by Reference.

Why is Legg Mason making the exchange offer?

We are making this offer to increase our equity capital levels and reduce the amount of our outstanding debt and related interest expense.

What number of Corporate Units is being sought in the offer?

We are offering to exchange up to an aggregate of 21,850,000, or 95%, of our outstanding Corporate Units.

What will participating Corporate Units holders receive in the offer?

For each Corporate Unit that you validly tender and that we accept for exchange, you will receive 0.8881 of a share of our common stock plus \$6.25 in cash. There will not be a separate payment for accrued and unpaid contract adjustment payments or accrued and unpaid interest payments.

Our common stock and the Corporate Units are listed on the New York Stock Exchange under the symbols LM and LMI, respectively. The last reported sale prices per share of our common stock and per Corporate Unit on the New York Stock Exchange were \$28.25 and \$31.34, respectively, on August 6, 2009.

We will not issue fractional shares of common stock upon exchange of the Corporate Units in the exchange offer. Instead, we will pay cash for all fractional shares based upon the closing price per share of our common stock on the business day immediately preceding the expiration date. See Description of the Offer Terms of the Offer.

If I participate by tendering my Corporate Units, will I receive the quarterly contract adjustment payments and interest payments that are payable after the expiration date?

No. If your Corporate Units are validly tendered and accepted for exchange, you will lose your right to receive payments with respect to your Corporate Units to be made after completion of the offer. If you validly tender Corporate Units and they are accepted for exchange, you will receive 0.8881 of a share of our common stock and \$6.25 per Corporate Unit, and we will not make a separate payment for any accrued and unpaid contract adjustment payments with respect to the purchase contract or any accrued and unpaid interest with respect to the senior notes.

How does the number of shares of common stock I will receive if I tender my Corporate Units compare to the number of shares of common stock I would receive on the Corporate Units if I do not tender?

If you participate in the offer and we accept your validly tendered Corporate Units for exchange, you will receive, for each such Corporate Unit, 0.8881 of a share of our common stock and \$6.25 in cash on the settlement date.

If you do not participate in the offer and hold your Corporate Units until June 30, 2011, you will receive (subject to anti-dilution adjustments), for each Corporate Unit, between 0.7401 and 0.8881 of a share of our common stock depending on the adjusted applicable market value of our common stock and quarterly cash payments of \$0.875 on each March 30, June 30, September 30 and December 30 that total \$7.00 in aggregate. See Comparison of Rights of Holders of Corporate Units and Holders of Legg Mason Common Stock Exchange.

Table of Contents

How does the cash payment I will receive if I tender my Corporate Units compare to the payments I would receive on the Corporate Units if I do not tender?

If you participate in the offer and we accept your validly tendered Corporate Units for exchange, you will receive, for each such Corporate Unit, 0.8881 of a share of our common stock and \$6.25 in cash on the settlement date. In addition, you will be entitled to receive cash dividends on our common stock if, when and as may be declared by our board of directors from time to time on or after the settlement date.

If you do not participate in the offer, you will be entitled to receive \$0.875 for each Corporate Unit on each of September 30 and December 30, 2009 and March 30, June 30, September 30 and December 30, 2010 and March 30 and June 30, 2011, on which you continue to hold Corporate Units, which totals \$7.00 in aggregate. Except as described below, you will receive no further quarterly payments after June 30, 2011 (the *purchase contract settlement date*). If you cash settle your purchase contract, you retain your senior note and there is a failed remarketing, then you will be entitled to receive quarterly interest payments at the rate of 5.6% per year until June 30, 2021 (but not the quarterly contract adjustment payments, which terminate on the purchase contract settlement date). If you cash settle your purchase contract, you retain your senior note and there is a successful remarketing, then you will be entitled to receive semi-annual interest payments at the reset rate, as determined by the remarketing agent with such reset rate becoming effective on the purchase contract settlement date, until June 30, 2021 (or such earlier maturity date which shall be not earlier than December 30, 2013 as we may elect in connection with a successful remarketing) (but not the quarterly contract adjustment payments, which terminate on the purchase contract settlement date). If the notes have not been successfully remarketed, the interest rate on the notes will not be reset and you will have the right to put your notes to us on the purchase contract settlement date at a put price equal to \$1,000 per note (\$50 per applicable Corporate Unit) plus accrued and unpaid interest. Unless you have settled the related purchase contracts with separate cash, you will be deemed to have elected to apply a portion of the proceeds of the put price equal to the principal amount of the notes underlying such Corporate Units against your obligations to us under the related purchase contracts, thereby satisfying such obligations in full, and we will deliver to you our common stock pursuant to the related purchase contracts. You will be entitled to receive cash dividends on our common stock if, when and as may be declared by our board of directors from time to time on or after the purchase contract settlement date, only after satisfying your stock purchase obligations under the purchase contracts on the purchase contract settlement date. See *Comparison of Rights of Holders of Corporate Units and Holders of Legg Mason Common Stock Dividends/Distributions*.

How will Legg Mason fund the cash portion of the offer consideration?

Assuming full participation, we will need approximately \$136.6 million in cash to fund the cash portion of the offer consideration. We will use cash on hand to make these payments.

Do I have a choice in whether to tender my Corporate Units?

Yes. Holders of Corporate Units are not required to tender their Corporate Units pursuant to this offer.

May I tender only a portion of the Corporate Units that I hold?

Yes. You do not have to tender all of your Corporate Units to participate in the offer.

Is the offer subject to conditions?

Yes. The offer is subject to conditions, which we may waive. If any of the conditions is not satisfied or waived, we will not accept and exchange any validly tendered Corporate Units. For more information regarding the conditions to the offer, see the section of this prospectus entitled *Description of the Offer Conditions to the Offer*.

How do I tender my Corporate Units?

If your Corporate Units are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, you should contact that registered holder promptly and instruct him, her or it to tender your

Table of Contents

Corporate Units on your behalf. If you are a DTC participant, you may electronically transmit your acceptance through ATOP. See Description of the Offer Procedures for Tendering Corporate Units.

What happens if some or all of my Corporate Units are not accepted for exchange?

If we decide for any reason not to accept some or all of your Corporate Units, the Corporate Units not accepted by us will be returned to you, at our expense, promptly after the expiration or termination of the offer. In the case of Corporate Units tendered by book-entry transfer into the information and exchange agent's account at DTC, DTC will credit any validly withdrawn or unaccepted Corporate Units to your account at DTC. For more information, see the section of this prospectus entitled Description of the Offer Procedures for Tendering Corporate Units.

Until when may I withdraw previously-tendered Corporate Units?

If not previously returned, you may withdraw previously-tendered Corporate Units at any time until the offer has expired, that is, 12:01 a.m., New York City time, on August 12, 2009, unless extended or earlier terminated by us. In addition, you may withdraw any Corporate Units that you tender that are not accepted for exchange by us after the expiration of 40 business days from the commencement of the offer. For more information, see the section of this prospectus entitled Description of the Offer Withdrawals of Tenders.

How do I withdraw previously tendered Corporate Units?

To withdraw previously tendered Corporate Units, you are required to submit a notice of withdrawal to the information and exchange agent, in accordance with the procedures described herein and in the letter of transmittal. See Description of the Offer Withdrawal of Tenders. For further information on how to withdraw previously-tendered Corporate Units, contact the information and exchange agent at the telephone number set forth on the back cover of this prospectus.

Will I have to pay any fees or commissions if I tender my Corporate Units?

If your Corporate Units are held through a broker, dealer, commercial bank, trust company or other nominee who tenders the Corporate Units on your behalf, you may be charged a commission for doing so. You should consult with your broker, dealer, commercial bank, trust company or other nominee to determine whether any charges will apply.

Will Legg Mason exchange all validly tendered Corporate Units?

We may not exchange all of the Corporate Units that you tender in the offer. If holders validly tender more than an aggregate of 21,850,000 Corporate Units for exchange, we will accept an aggregate of not more than 21,850,000 Corporate Units from all holders, prorated among the tendering holders. We will also prorate if we conclude based on discussions with the New York Stock Exchange that the Corporate Units are likely to be de-listed as a result of our acceptance of all Corporate Units validly tendered and not withdrawn in the offer. Any Corporate Units tendered but not accepted because of proration will be returned to you. See Description of the Offer Priority of Exchanges and Proration.

If the offer is consummated and I do not participate in the offer or I do not exchange all of my Corporate Units in the offer, how will my rights and obligations under my unexchanged Corporate Units be affected?

The terms of your Corporate Units that remain outstanding after the consummation of the offer will not change as a result of the offer.

How will the offer affect the trading market for the Corporate Units that are not exchanged?

If a sufficiently large number of Corporate Units do not remain outstanding after the offer, the trading market for the remaining outstanding Corporate Units may be less liquid and more sporadic, and market prices may fluctuate significantly depending on the volume of trading in Corporate Units. See Effects of the Offer on the Market for Corporate Units; Registration Under the Exchange Act; New York Stock Exchange Listing.

Table of Contents

Is Legg Mason making a recommendation regarding whether you should tender in the offer?

No. We are not making any recommendation regarding whether you should tender or refrain from tendering your Corporate Units in the offer. You must make your own determination as to whether to tender your Corporate Units in the offer and, if so, the number of Corporate Units to tender. Before making your decision, we urge you to carefully read this prospectus in its entirety, including the information set forth in the section of this prospectus entitled *Risk Factors*, and the other documents incorporated by reference in this prospectus.

Will the common stock issued as part of the offer consideration be freely tradable?

Yes. We expect that the shares of our common stock to be issued in the exchange offer will be approved for listing on the New York Stock Exchange, under the symbol *LM*, subject to official notice of the issuance. Generally, the common stock you receive in the exchange offer will be freely tradable, unless you are considered an *affiliate* of ours, as that term is defined in the Securities Act. For more information regarding the market for our common stock, see the section of this prospectus entitled *Price Range of Legg Mason Common Stock and Legg Mason's Dividend Policy*.

When does the offer expire?

The offer will expire at 12:01 a.m., New York City time, on August 12, 2009, unless extended or earlier terminated by us.

Under what circumstances can the offer be extended, terminated or amended?

We reserve the right to extend the offer for any reason or no reason at all. We also expressly reserve the right, at any time or from time to time, to amend the terms of the offer in any respect prior to the expiration date. Further, we may be required by law to extend the offer if we make a material change in the terms of the offer or in the information contained in this prospectus or waive a material condition to the offer. During any extension of the offer, Corporate Units that were previously tendered and not validly withdrawn will remain subject to the offer. We reserve the right, in our sole and absolute discretion, to terminate the offer, at any time prior to the expiration date, for any reason if any condition to the offer is not met. If the offer is terminated, no Corporate Units will be accepted for exchange and any Corporate Units that have been tendered will be returned to the holder. For more information regarding our right to extend, terminate or amend the offer, see the section of this prospectus entitled *Description of the Offer Extension, Termination or Amendment*.

How will I be notified if the offer is extended, terminated or amended?

Any extension, termination or amendment of the offer will be followed promptly by announcement thereof, such announcement in the case of an extension of the offer to be issued no later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date. For more information regarding notification of extensions, termination or amendment of the offer, see the sections of this prospectus entitled *Description of the Offer Extension, Termination or Amendment* and *Description of the Offer Announcements*.

What risks should I consider in deciding whether or not to tender my Corporate Units?

In deciding whether to participate in the offer, you should carefully consider the risks described in the section of this prospectus entitled *Risk Factors*, and the documents incorporated by reference in this prospectus.

Are the financial condition and results of operations of Legg Mason relevant to my decision to tender in the offer?

Yes. The price of both our common stock and the Corporate Units are closely linked to our financial condition and results of operations. The successful completion of the offer will reduce the amount of our outstanding debt and interest expense.

Table of Contents

May I participate in the offer by tendering Treasury Units for exchange?

No. We are not offering to exchange any Treasury Units. If you own Treasury Units and you desire to participate in the offer, you may recreate Corporate Units from your Treasury Units, and then tender the recreated Corporate Units. Because Treasury securities and notes are issued in integral multiples of \$1,000 principal amount, you may make these substitutions only in integral multiples of 20 Treasury Units. To create 20 Corporate Units from 20 Treasury Units, you will deposit with the collateral agent a \$1,000 principal amount note, which must be purchased in the open market at your expense unless otherwise owned by you and transfer 20 Treasury Unit certificates to the purchase contract agent accompanied by a notice stating that you have deposited a \$1,000 principal amount note with the collateral agent and requesting the release to you of the Treasury securities relating to the Treasury Units. You may contact the information and exchange agent at the telephone number set forth on the back cover of this prospectus for more information on how to recreate Corporate Units from Treasury Units in order to participate in the offer. See Description of the Offer Terms of the Offer.

What are the material U.S. federal income tax consequences of my participating in the offer?

The exchange of a Corporate Unit for shares of our common stock plus cash pursuant to the exchange offer will be a taxable event for U.S. federal income tax purposes, subject to potential nonrecognition treatment with respect to the senior note under the rules governing corporate recapitalizations. Very generally, gain or loss will be separately calculated with respect to the senior note and purchase contract comprising each Corporate Unit. The manner in which such gain or loss is calculated, however, is unclear due to the absence of authority addressing the same or substantially similar transactions. We intend to treat the exchange of your Corporate Units for shares of our common stock plus cash pursuant to the exchange offer as a termination of the purchase contract for an amount deemed paid to us reflecting the relief of your obligation under the purchase contract and a retirement of the senior note in exchange for common stock, cash (other than the portion of such cash that is properly allocable to the purchase contract, including accrued and unpaid contract adjustment payments) and the deemed amount paid to us reflecting the relief of your obligation under the purchase contract. For a summary of the U.S. federal income tax considerations of the offer, which is based on the opinion of Shearman & Sterling LLP, our federal tax counsel, see Material U.S. Federal Income Tax Considerations. You should consult your own tax advisor for a full understanding of the tax consequences of participating in the offer.

What is the impact of the exchange offer to Legg Mason's earnings per share?

On an on-going basis, we will not incur interest expense related to the Corporate Units that are validly tendered and accepted for exchange, favorably impacting our earnings per share. At the same time, as a result of the exchange offer, the number of outstanding shares of our common stock will increase, negatively impacting our earnings per share. Assuming 21,850,000 Corporate Units are validly tendered and accepted for exchange, we would have a full-year improvement, excluding any transactional cost of the exchange offer, of about \$37.8 million (net of taxes) to our Income (loss) from continuing operations and Net income (loss) and the number of outstanding shares of our common stock would increase by approximately 19.4 million shares.

We will record a one-time debt exchange loss for the second quarter of fiscal year 2010 in connection with the exchange offer. Assuming 21,850,000 Corporate Units are validly tendered and accepted for exchange, the debt exchange pre-tax loss is estimated to be \$23 million, based on the July 14, 2009 closing trading price on the New York Stock Exchange of our common stock of \$24.10. This one-time loss will negatively impact our earnings per share for the second quarter of fiscal year 2010.

How many shares of Legg Mason common stock will be outstanding assuming the exchange of the maximum number of the Corporate Units pursuant to this exchange offer?

As of August 3, 2009, there were 142,665,053 shares of our common stock outstanding. If 21,850,000 Corporate Units are tendered and accepted for exchange in accordance with this exchange offer, there would be an aggregate of approximately 162,070,038 shares of our common stock outstanding.

Table of Contents

What does Legg Mason intend to do with the Corporate Units that it acquires in the exchange offer?

Any Corporate Units that are validly tendered and accepted for exchange pursuant to the exchange offer will be retired and cancelled. See Summary Purpose of the Exchange Offer.

Are any Corporate Units held by Legg Mason directors or officers?

No. To our knowledge, none of our directors or executive officers beneficially holds Corporate Units.

Will Legg Mason receive any cash proceeds from the exchange offer?

No. We will not receive any cash proceeds from the exchange offer.

With whom may I talk if I have questions about the exchange offer?

Any holder or beneficial owner of Corporate Units that has questions concerning tender procedures should contact the information and exchange agent at the address and telephone numbers set forth on the back cover of this prospectus. Any questions regarding the terms of the exchange offer should be directed to the dealer managers at the address and telephone numbers set forth on the back cover of this prospectus. We also urge you to consult your own financial and tax advisors in making your own decisions on what action, if any, to take in light of your own particular circumstances.

Table of Contents

RISK FACTORS

Your decision whether to participate in the offer, and to exchange the Corporate Units for the offer consideration will involve risk. You should be aware of, and carefully consider, the following risk factors, along with all of the other information provided or referred to in this prospectus and the documents incorporated by reference herein, before deciding whether to participate in the offer. Whether or not you elect to tender your Corporate Units, you should also review the risks attendant to being an investor in our equity and debt securities that are described below.

Risks Related to Holding Corporate Units after the Exchange Offer

There will be less liquidity in the market for non-tendered Corporate Units, and the market prices for non-tendered Corporate Units may therefore decline.

If the offer is consummated, the number of outstanding Corporate Units will be reduced, perhaps substantially, which would likely adversely affect the liquidity of non-tendered Corporate Units. An issue of securities with a small number available for trading, or float, generally commands a lower price than does a comparable issue of securities with a greater float. Therefore, the market price for Corporate Units that are not validly tendered in the offer may be adversely affected. The reduced float also may tend to make the trading prices of Corporate Units that are not exchanged more volatile. See *Effects of the Offer on the Market for Corporate Units; Registration under the Exchange Act; New York Stock Exchange Listing.*

If you do not tender your Corporate Units and we become subject to a bankruptcy or similar proceeding, you may recover less than you would have had you tendered your Corporate Units for offer consideration.

If you are a holder of Corporate Units, you are being offered common stock and cash as the offer consideration. Prior to the maturity date of the senior notes, we may become subject to a bankruptcy or similar proceeding. If you are a holder of Corporate Units who does not tender such Corporate Units and we become subject to a bankruptcy or similar proceeding prior to the maturity of the senior notes, you may receive less than the amount you would have received had you tendered your Corporate Units for the offer consideration.

Risks Related to Participating in the Exchange Offer

The offer consideration does not reflect any independent valuation of the Corporate Units or the common stock.

We have not obtained or requested, and do not intend to obtain or request, a fairness opinion from any banking or other firm as to the fairness of the offer consideration or the relative values of Corporate Units and offer consideration. If you tender your Corporate Units, you may or may not receive more than or as much value as if you choose to keep them.

The offer may not be consummated.

If each of the conditions to the offer is not satisfied or waived, we will not accept any Corporate Units tendered in the offer. See *Description of the Offer* *Conditions to the Offer* for a list of the conditions to the consummation of the offer.

A holder of Corporate Units participating in the offer will become subject to all of the risks and uncertainties faced by holders of our common stock, which may be different from or greater than those associated with holding the Corporate Units.

A holder of Corporate Units participating in the offer will become subject to all of the risks and uncertainties associated with ownership of our common stock. These risks may be different from or greater than those associated with holding the Corporate Units. A holder exchanging Corporate Units for common stock will forego the right to receive future interest payments on the senior notes, the right to receive future contract

Table of Contents

adjustment payments and the right to receive priority over the equity holders of Legg Mason in the event that we become subject to a bankruptcy or similar proceeding. As such, a holder of Corporate Units participating in the exchange offer may have greater exposure to the risks and uncertainties facing Legg Mason and its subsidiaries generally, which are more fully described below and in our Annual Report on Form 10-K for the year ended March 31, 2009.

The common stock is an equity security and is subordinate to our existing and future indebtedness.

The shares of common stock are equity interests. This means the shares of common stock will rank junior to our indebtedness, to our existing preferred stock and any other preferred stock we may issue, and to other non-equity claims on us and our assets available to satisfy claims on us, including claims in a bankruptcy or similar proceeding. Our existing and future indebtedness may restrict payment of dividends on our common stock.

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of our common stock, holders are only entitled to receive dividends out of assets or funds legally available for payment of dividends at such times and in such amounts as our board of directors from time to time may determine. Further, the common stock places no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the voting rights available to stockholders generally.

The market price of our common stock may be adversely affected by market conditions affecting the stock markets in general, including price and trading fluctuations on the New York Stock Exchange.

The market price of our common stock may be adversely affected by market conditions affecting the stock markets in general, including price and trading fluctuations on the New York Stock Exchange. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our common stock and (ii) sales of substantial amounts of our common stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance.

The exchange ratio is fixed and will not be adjusted. The market price of shares of our common stock may fluctuate, and you cannot be sure of the market value of the shares of common stock issued in the offer.

Upon completion of the offer, each holder that validly tenders Corporate Units will receive 0.8881 of a share of our common stock and \$6.25 in cash for each tendered Corporate Unit. The exchange ratio will not be adjusted due to any increases or decreases in the market price of common stock or Corporate Units between the date of this offer to exchange and the expiration date. The value of the common stock received in the offer will depend upon the market price of a share of our common stock on the settlement date. The trading price of the common stock will likely be different on the settlement date than it is as of the date the offer commences because of ordinary trading fluctuations as well as changes in the business, operations or prospects of Legg Mason, market reactions to the offer, general market and economic conditions and other factors, many of which may not be within our control. Accordingly, at the time of the commencement of the offer, holders of Corporate Units will not know the exact market value of our common stock that will be issued in connection with the offer.

We may extend the offer, during which time the market value of our common stock will fluctuate. See Description of the Offer Extension, Termination or Amendment. Promptly following our acceptance of Corporate Units tendered in the offer, we will issue the shares of common stock, during which time the market value of our common stock will also fluctuate. The closing price of our common stock on the New York Stock Exchange on August 6, 2009 was \$28.25 per share. From April 1, 2009, the first trading day of our first quarter in the 2010 fiscal year, through August 6, 2009, the trading price of our common stock ranged from a high of \$29.01 per share to a low of \$15.53 per share.

Table of Contents

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The market price of our common stock or preferred stock could decline as a result of sales of a large number of shares of common stock or preferred stock or similar securities in the market after this offering or the perception that such sales could occur.

Although we have paid cash dividends in the past, we recently reduced our quarterly dividend and may not pay cash dividends in the future.

We have a history of paying dividends to our stockholders when sufficient cash is available. However, future cash dividends will depend upon our results of operations, financial condition, cash requirements and other factors, including the ability of our subsidiaries to make distributions to us, which ability may be restricted by statutory, contractual or other constraints. Also, there can be no assurance that we will continue to pay dividends even if the necessary financial conditions are met and if sufficient cash is available for distribution. On May 4, 2009, our board of directors declared a regular, quarterly dividend of \$0.03 per share, significantly reducing the regular, quarterly dividend paid on shares of our common stock in order to improve our flexibility to respond to cash needs and business opportunities requiring cash outflows. See Price Range of Common Stock and Dividend Policy.

The U.S. federal income tax consequences of your participation in the exchange offer are not certain.

The exchange of a Corporate Unit for shares of our common stock plus cash pursuant to the exchange offer will be a taxable event for U.S. federal income tax purposes, subject to potential nonrecognition treatment with respect to the senior note under the rules governing corporate recapitalizations. Very generally, gain or loss will be separately calculated with respect to the senior note and purchase contract comprising each Corporate Unit. The manner in which such gain or loss is calculated, however, is unclear due to the absence of authority addressing the same or substantially similar transactions. We intend to treat the exchange of your Corporate Units for shares of our common stock plus cash pursuant to the exchange offer as a termination of the purchase contract for an amount deemed paid to us reflecting the relief of your obligation under the purchase contract and a retirement of the senior note in exchange for common stock, cash (other than the portion of such cash that is properly allocable to the purchase contract, including accrued and unpaid contract adjustment payments) and the deemed amount paid to us reflecting the relief of your obligation under the purchase contract. Any gain recognized with respect to the senior note will be treated as ordinary interest income.

The tax consequences of certain other aspects of the exchange offer are also unclear due to the absence of authority addressing the same or substantially similar transactions. In particular, there is uncertainty as to whether the retirement of the senior note will qualify for non-recognition treatment under the recapitalization rules and the treatment of accrued and unpaid contract adjustment payments.

For a summary of the U.S. federal income tax considerations of the offer, which is based on the opinion of Shearman & Sterling LLP, our federal tax counsel, see Material U.S. Federal Income Tax Considerations. You should consult your own tax advisor for a full understanding of the tax consequences of participating in the offer.

Risks Related to Being an Investor in Our Equity and Debt Securities

Our leverage may affect our business and may restrict our operating results.

At March 31, 2009, on a consolidated basis, we had approximately \$3.0 billion in total indebtedness and total stockholders' equity of \$4.6 billion, and our goodwill and other intangible assets were \$1.2 billion and \$3.9 billion, respectively. As of March 31, 2009, we had \$390 million of additional borrowing capacity available under our various credit agreements, subject to certain conditions. 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

Table of Contents

increase in the future if we incur additional indebtedness and, in this regard, we have available, subject to maintaining compliance with financial covenants in our existing debt facilities, credit facilities that are not currently being fully utilized.

Our ability to make scheduled payments of principal of, to pay interest on, 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 facilities require 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 3.0 to 1 and (ii) our ratio of Consolidated EBITDA to total cash interest payments on certain Indebtedness (as defined therein) exceeds 4 to 1 while another debt facility prevents us from incurring additional debt, with certain exceptions, if our total debt to Consolidated EBITDA (as defined therein) exceeds 2.5 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 our ability to provide support, should we elect to do so, to funds that our subsidiaries manage; and

place us at a competitive disadvantage compared to our competitors that have less debt.

As of March 31, 2009, under the terms of our bank credit agreements our ratio of net debt to EBITDA was 1.8 and our ratio of EBITDA to interest expense was 6.2, and therefore, Legg Mason was in compliance with its bank financial covenants. If our net income stays at current levels or further 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, we will increase our net debt to EBITDA ratio, thus putting pressure on our compliance with the covenants. 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 this regard, based on March 2009 run rate EBITDA, and factoring projected cost savings, we would be required to repay over half of our outstanding bank debt by December 2009 to maintain compliance with our covenants. However, based on improved April 2009 run rate results, repayment of debt may not be required to maintain compliance with our covenants. We anticipate that we will have available cash to repay all or a portion of our bank debt, should it be necessary. In addition, under the terms of the debt to EBITDA ratio covenant that we entered into in connection with the issuance of our 2.5% senior convertible notes, we may not, with certain exceptions, incur more than \$250 million in additional debt until the effects of the sales of securities of structured investment vehicles and other similar conduits (*SIVs*) drop out of the trailing twelve month EBITDA calculation and when we have substantially reduced our outstanding indebtedness.

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 date.

Support we provided to liquidity funds affected our financial position and results of operations.

As has been widely publicized, since late July 2007, there has been substantial disruption in the worldwide fixed income markets, including, specifically, a dramatic reduction in buyers of commercial paper and medium term notes issued by SIVs, which has adversely affected the liquidity in the market. As a result of these liquidity constraints and, for certain issuers, credit concerns, a number of SIVs have defaulted on their obligations under their securities and become the subject of restructuring negotiations or insolvency proceedings. Liquidity asset management funds that are managed by our subsidiaries invested in a number of these SIV-issued securities, and other types of funds managed by our subsidiaries, including closed-end funds that have issued auction rate

Table of Contents

preferred securities, have also been affected by these issues. In response to these issues, during fiscal years 2008 and 2009 we provided various forms of support to a number of liquidity funds. As part of that support, we assisted the funds in eliminating their exposure to SIV-issued securities, in part by acquiring certain SIV securities from the funds at their full amortized cost, rather than market prices, or reimbursing the funds for losses incurred in selling SIV securities. As a result of these actions, we incurred an aggregate of \$2.3 billion in gross charges (\$1.4 billion net of taxes and related expense reductions) and utilized an aggregate of approximately \$2.9 billion in available cash during the fiscal year. See Note 17 of Notes to Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for a further description of the support we provided.

Although we currently have no exposure to SIV-issued securities and thus would not provide any more support for those investments, as of March 31, 2009, we had outstanding capital support agreements committing us to provide up to \$41.5 million in capital contributions to liquidity funds managed by our subsidiary in certain circumstances upon the funds realizing a loss on investments in securities that are not asset-backed or SIV-issued. One of these agreements, providing for up to \$7 million in contributions, expired in April 2009. In the future, we may elect to provide additional credit, liquidity, or other support to products that we manage, particularly liquidity funds, although we are not legally required to do so 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 additional 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. During the last three years, several of our key equity and fixed income asset managers have not produced strong investment performance, on a relative basis or an absolute basis, in certain products or accounts that they manage. These investment performance issues have contributed to a significant reduction in their assets under management and revenues and a reduction in performance fees. There can be no assurance as to when, or if, these investment performance issues, or the resulting effects on the managers' assets under management and revenues, will be resolved. Moreover, even if investment performance should improve in the short term, in many cases there may be a lag before improved performance produces a positive effect on the managers' assets under management or revenues.

Assets under management may be withdrawn, which may reduce our revenues and net income.

Our investment advisory and administrative contracts are generally terminable at wi