

LEGG MASON, INC.  
BOARD OF DIRECTORS  
AUDIT COMMITTEE CHARTER

I. PURPOSE

The Audit Committee (the “Committee”) shall assist the Board of Directors (the “Board”) of Legg Mason, Inc. (the “Company”) in fulfilling its oversight responsibilities to stockholders, the investment community and others for (1) monitoring the quality and integrity of the financial statements of the Company; (2) monitoring the Company's compliance with legal and regulatory requirements; (3) assessing the independence, qualification and performance of the Company's independent auditors; (4) preparing the report required by the Securities and Exchange Commission’s (“SEC”) proxy rules; and (5) assessing the performance of the Company's director of internal audit.

While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for preparing the Company's financial statements and the Company's independent auditors are responsible for auditing the annual financial statements and for reviewing the unaudited interim financial statements.

II. MEMBERSHIP

The Chairman and the members of the Committee shall be nominated by the Nominating & Corporate Governance Committee and appointed by the Board.

The Committee shall consist of at least three directors, and shall be composed solely of directors independent of management and the Company. The members of the Committee shall meet the independence and experience requirements of the New York Stock Exchange (“NYSE”), the Securities Exchange Act of 1934, the rules and regulations of the SEC, and any additional independence standards that may be adopted by the Board. All Committee members shall be financially literate, and, whenever possible, at least one member shall be an “audit committee financial expert,” as defined by rules and regulations of the SEC and the NYSE.

III. DUTIES & RESPONSIBILITIES

In carrying out its responsibilities, the Committee believes its policies and procedures should be reviewed periodically, in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to ensure an appropriate environment for quality financial reporting, sound business risk practices and ethical behavior. The following shall be the principal duties and responsibilities of the Committee.

In carrying out its responsibilities, the Committee shall:

- Engage the independent auditors of the Company to conduct the examination of the books and records of the Company and its affiliates, and terminate any such engagement if circumstances warrant. The independent auditors are ultimately accountable to, and shall report directly to, the Committee. The Committee shall have the sole authority to approve all of the independent auditors' audit and non-audit engagement fees and terms.
- Provide oversight of the work of the independent auditors, including resolution of disagreements between management and the independent auditors regarding financial reporting.
- Pre-approve all audit services and permissible non-audit services provided by the independent auditors. The Committee may delegate pre-approval authority to a member of the Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.
- Meet with the Company's independent auditors and management to review the scope of the proposed annual audit (and related quarterly reviews) and the audit procedures to be followed, including any subsequent material changes.
- Discuss with the Company's independent auditors and management information relating to the auditors' judgments about the quality, not just the acceptability, of the Company's accounting principles and matters identified by the auditors during interim reviews. Also, the Committee shall discuss the results of the annual audit and any other matters that may be required to be communicated to the Committee by the Company's independent auditors under generally accepted auditing standards.
- At least annually, receive from and discuss with the independent auditors and management, separately or together as determined by the Committee, a report on (1) all critical accounting policies and practices to be used; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and (3) other material written communications between the independent auditors and management of the Company, such as any management letter or schedule of unadjusted audit differences.
- Obtain assurance from the Company's independent auditors that they have complied with their obligation to identify and report fraud in connection with their audit of the financial statements of the Company.

- Discuss the Company's annual audited financial statements and unaudited quarterly financial statements with management and the independent auditors, including management's discussion and analysis of financial condition and results of operations. Discuss other matters with the Company's independent auditors as required by the SEC and, if appropriate, recommend that the audited financial statements be included in the Company's Form 10-K.

- Approve the content of the report of the Committee required by the SEC to be included in the Company's annual proxy statement.

- Provide sufficient opportunity at its meetings to meet separately in executive session with the Company's independent auditors, members of management and representatives of internal audit. Among the items to be discussed with the Company's independent auditors are (1) the independent auditors' evaluation of the Company's financial and accounting personnel; (2) the cooperation that the independent auditors received during the course of its audit; (3) any management letter provided by the independent auditors and management's response; and (4) any other matters the Committee may determine from time to time.

- At least annually, obtain and review a report by the independent auditors describing: (1) the independent auditors' internal quality-control procedures; and (2) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting any independent audits carried out by the firm and any steps taken to deal with any such items.

- At least annually, receive reports from the Company's independent auditors regarding the auditors' independence from management and the Company (including the identification of all relationships between the independent auditors and the Company), discuss such reports with the independent auditors, consider whether the provision of non-audit services by the independent auditors is compatible with the auditors' independence, and, if determined by the Committee, recommend that the Board take action to satisfy itself of the independence of the auditors.

- Evaluate the performance of the independent auditors and lead audit partner, and report its conclusions to the Board.

- Set hiring policies that conform to applicable SEC or other external guidelines for employment by the Company of employees and former employees of the independent auditors.

- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and their impact on the Company and its financial reporting. This includes any actual or proposed changes in accounting or financial reporting practices.
  
- Discuss with the Company's independent auditors, the director of internal audit and management the adequacy and effectiveness of the Company's internal auditing, accounting and financial controls, and elicit any recommendations for improvement.
  
- Review the internal audit function, including appointment or replacement of the director of internal audit, and approve the proposed audit scope for the year. The Committee shall also approve the long-range internal audit plan as well as review periodic progress reports.
  
- Receive from the director of internal audit a summary of findings from completed audits (and management's response) and a progress report on the proposed internal audit plan with explanations for any deviations from the original plan.
  
- Discuss with management an outline of press releases regarding results of operations, as well as general policies on earnings guidance to be provided to analysts, rating agencies, and the general public. Review any relevant items with management and the independent auditors prior to release of any such press releases or earnings guidance.
  
- Meet, at least annually, with management to discuss, as appropriate, significant accounting accruals, estimates and reserves; litigation matters; management's representations to the independent auditors; new or proposed regulatory accounting and reporting rules; any significant off-balance sheet transactions and special purpose entities; and any significant financial reporting issues or judgments disputed with the independent auditors.
  
- Discuss with management policies with respect to risk assessment and risk management.
  
- Review with the Company's general counsel legal matters that may have a material impact on the financial statements and the Company's compliance with laws and regulations.
  
- Establish procedures for (1) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (2) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

- In consultation with the Corporate Governance Committee, conduct an annual evaluation of the performance and effectiveness of the Committee and report the results of that evaluation to the Board.
- Review and reassess the adequacy of this charter annually and recommend any proposed changes of the charter to the Board for approval.
- Perform such other functions as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions, or as may be delegated to it from time to time by the Board.

#### IV. ADMINISTRATION

##### (A) Meetings

The Committee shall normally meet quarterly in conjunction with the regularly scheduled meetings of the Board. The Committee shall also meet to review and discuss the Company's annual financial statements before they are filed in a Form 10-K. The Chairman of the Committee will preside at all meetings at which the Chairman is present and will establish agendas for Committee meetings. The Chairman of the Committee may call special meetings of the Committee as circumstances warrant by providing written or telephonic notice to the other members of the Committee at least three (3) days prior to the date of the proposed special meeting. Members of the Committee may attend meetings telephonically when they are unable to attend the meetings in person. In lieu of a meeting, the Committee may act by unanimous written consent of all Committee members.

The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall maintain minutes of its meetings and report on its activities to the Board at each regular meeting of the Board.

##### (B) Quorum

A majority of the members of the Committee shall constitute a quorum for the transaction of business at any meeting of the Committee. The action of a majority of the Committee members present at a meeting at which a quorum is present shall constitute the action of the Committee.

##### (C) Retention of Experts

The Committee shall have the authority to retain consultants, legal counsel and other advisers to assist the Committee in fulfilling its duties and responsibilities. The

Committee will obtain advice and assistance from outside legal, accounting or other advisors as it deems necessary, and, shall have the authority and responsibility to negotiate and approve the fees and other engagement terms of such experts and to direct the payment of fees by the Company to such experts.

(D) Tenure

The Chairman and members of the Committee shall be appointed by and serve at the pleasure of the Board and may be removed at any time by majority vote of the Board members present at a meeting at which a quorum is present.

(E) Communications with the Committee

The Committee shall make clear to the independent and internal auditors as well as the Company's management that if, at any time, matters come to their attention which they believe should be communicated to the Committee, such matters should be communicated immediately to the Chairman of the Committee. When any Committee member learns of information that he or she believes should be communicated to the Board, he or she shall promptly notify the Chairman of the Committee.

Adopted by the Board on 1/20/04