

**LEGG MASON**  
GLOBAL ASSET MANAGEMENT

# Legg Mason, Inc

Citigroup Financial Services  
Conference  
March 9, 2011

Peter H. Nachtwey  
Chief Financial Officer



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

# Forward-Looking Statements

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

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

For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2010 and in the Company’s quarterly reports on Form 10-Q.

# Agenda

- Corporate overview
- AUM & flows
- Improved earnings
  - Diluted EPS of \$0.41 in QE Dec-10 (includes \$0.10 in transition costs and \$0.04 in closed-end fund costs) vs diluted EPS of \$0.28 in QE Dec-09 (includes \$0.11 in real estate lease losses)
  - Increased advisory fee yield
  - Improvement in operating margin, as adjusted
- Improved balance sheet
  - Debt reduction
  - Cash availability
- Continued share repurchases
- Streamlining our business model
- Strategy to deliver value

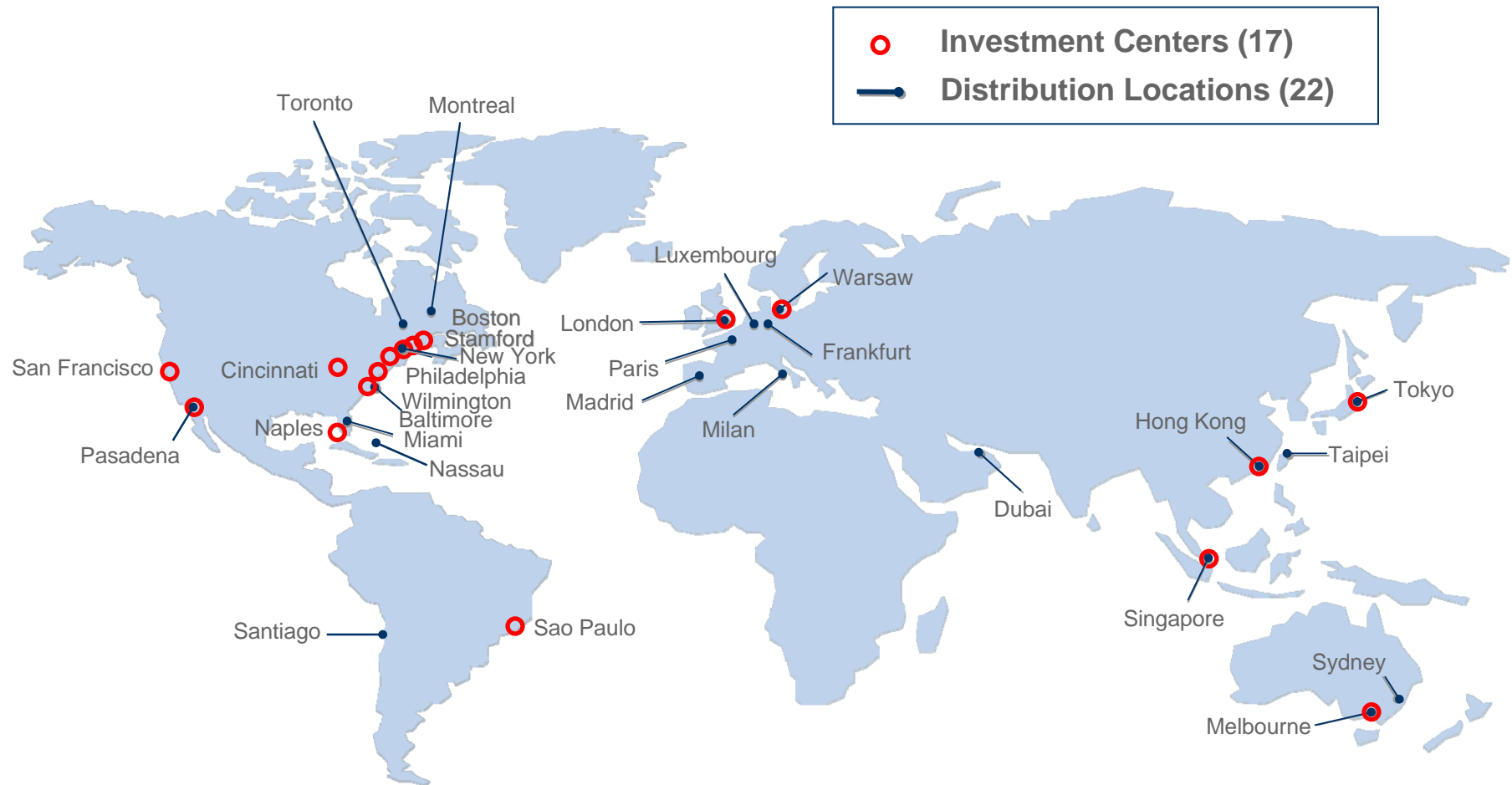
# Legg Mason Today

- A Diversified Global Asset Management Firm
- Serving Individual and Institutional Investors for Over a Century
- Approximately 3,400 Employees with 30 Offices Around the World
- Headquartered in Baltimore, Maryland
- Ticker: LM (NYSE)

As of December 31, 2010:

- Revenue TTM: \$2.7B
- Shares Outstanding:
  - Diluted – 151M
- Institutional Holdings: 88%
- AUM: \$672B
- Equity: \$5.8B
- Market Cap<sup>1</sup>: \$5.6B
- Stock Price<sup>1</sup>: \$36.32

# Global Presence



# Streamlined Legg Mason Business Model



# Legg Mason Executive Committee

**Mark R. Fetting**  
**CHAIRMAN & CEO**

Joseph A. Sullivan

**GLOBAL  
DISTRIBUTION**

Ronald R. Dewhurst

**GLOBAL  
INVESTMENT  
MANAGERS**

Jeffrey A. Nattans

**M&A and  
BUSINESS  
DEVELOPMENT**

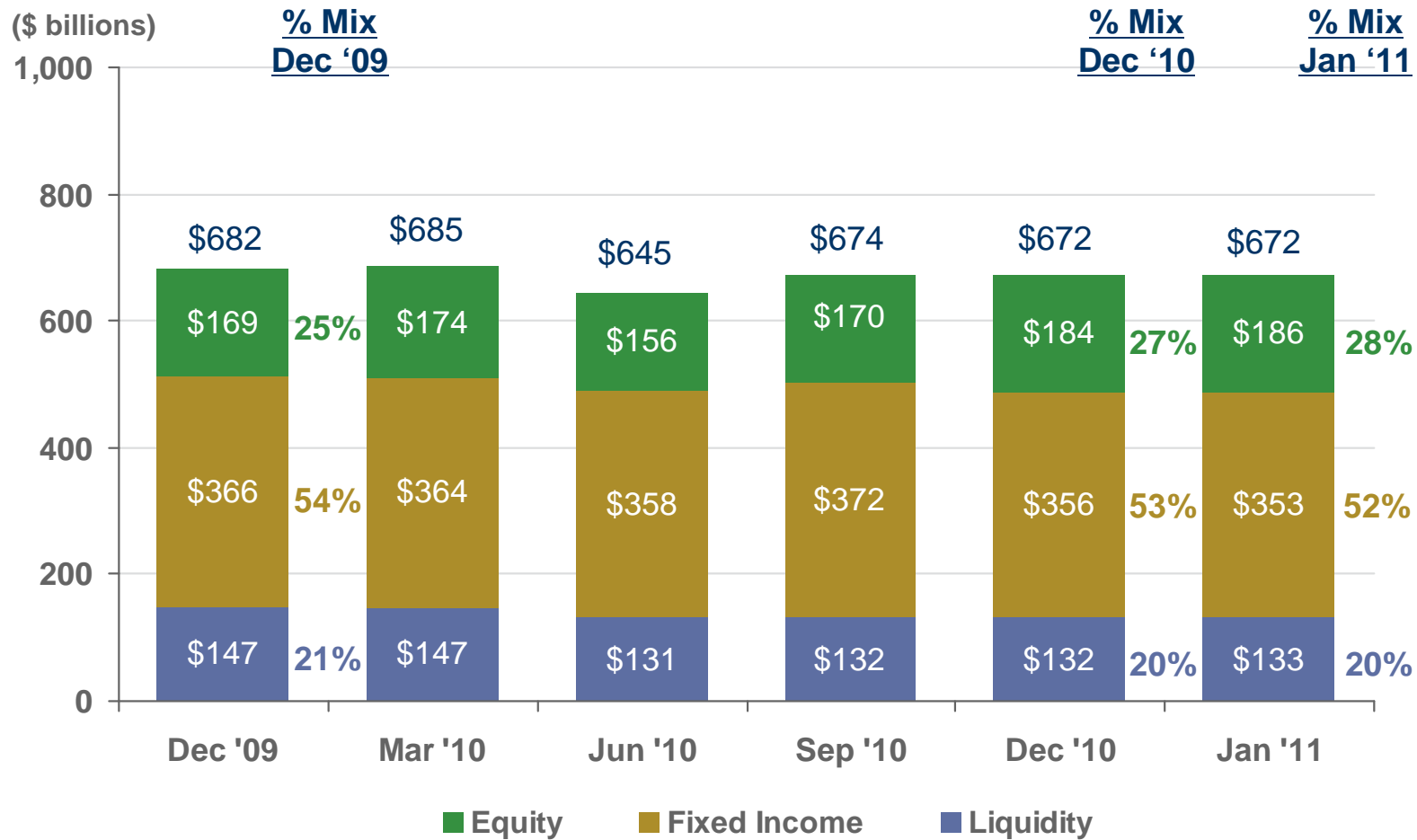
Peter H. Nachtwey

**CHIEF  
FINANCIAL  
OFFICER**

Thomas P. Lemke

**GLOBAL  
GOVERNANCE**

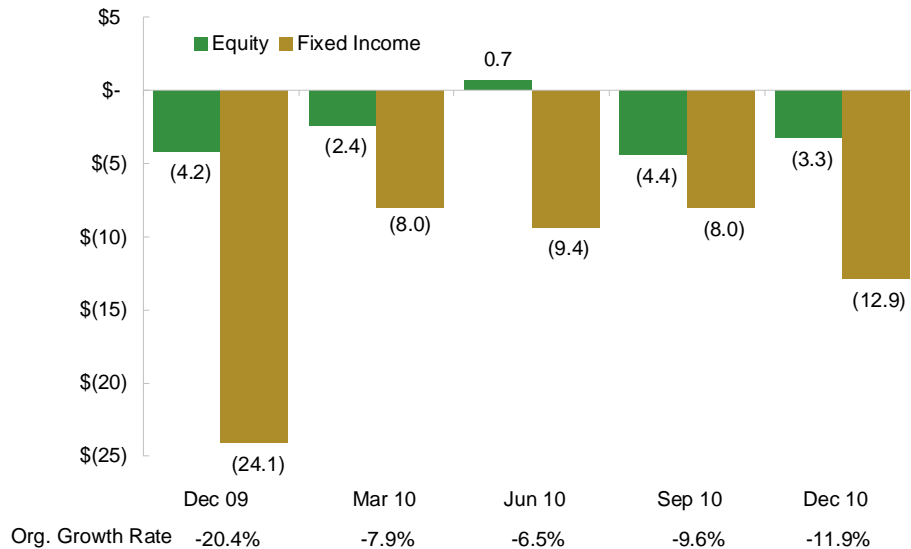
# Assets Under Management



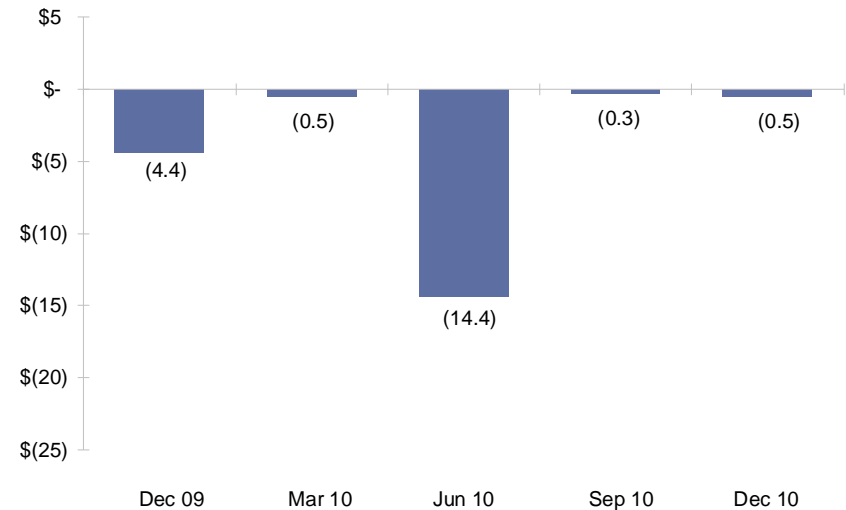


# Net Flows

### Long Term Net Flows (\$ billions)



### Liquidity Net Flows (\$ billions)



- Dec 10 quarter fixed income outflows have decreased 47% or \$11.2B from the prior year quarter. Approximately \$4.1B or 32% of Dec 10 quarter net outflows are related to two relationships
- Equity outflows for Dec 10 quarter compared to the prior quarter are down \$1.1B or 26%

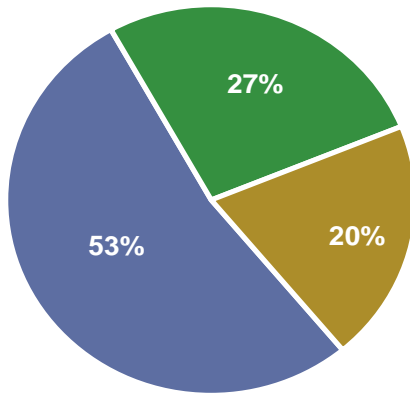
# Global Distribution - Overview

Overview: Centralized Distribution Platform for Retail, Individual and Selected International Institutional Markets

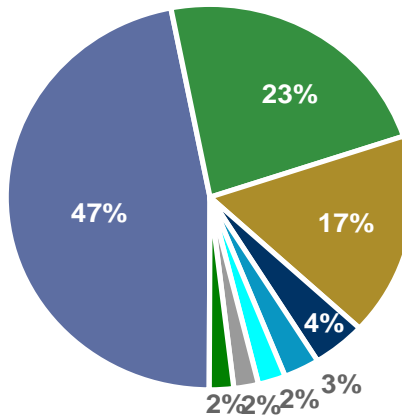
Total AUM: \$218 Billion

Locations: Offices in the Americas, Asia, Europe, Australia, Japan and Canada

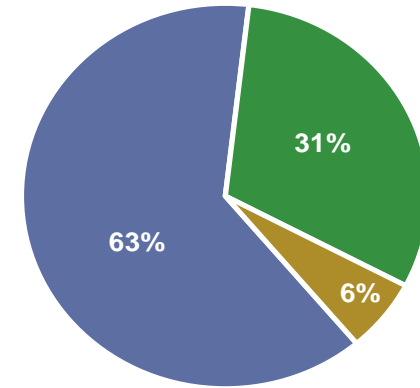
AUM by Channel



AUM by Affiliate



AUM by Product



US Retail
  US Individual
  International
  WAM
  CBA
  Royce
  LMCM
  BFM
  BWG
  LM Glb Eq
  Other

# Financial Highlights Third Quarter FY 2011

- Net Income, \$62M, \$0.41 per diluted share
  - Results include:
    - \$24.0M pre-tax transition-related costs or \$0.10 per diluted share
    - \$10.2M pre-tax costs driven by closed-end fund launch or \$0.04 per diluted share
- Average AUM of \$672B, up 2% from prior quarter
- Operating revenues \$722M, up \$47M or 7% from prior quarter
  - Mutual fund revenues increased \$27M or 8%
  - Advisory fee yield, 34.8 bps
  - Performance fees increased \$15M or 77%
- Operating expenses of \$625M increased \$38M or 6%
  - Includes transition-related costs and closed-end fund launch costs
- Operating income \$97M
- Adjusted income<sup>1</sup> \$110M or \$0.73 per diluted share
- Continued improvement in operating margin to 13.4% and operating margin, as adjusted<sup>1</sup> to 24.3%
- Continued share repurchase reduced average diluted shares outstanding to 151.0M for the quarter

# Operating Results Third Quarter FY 2011

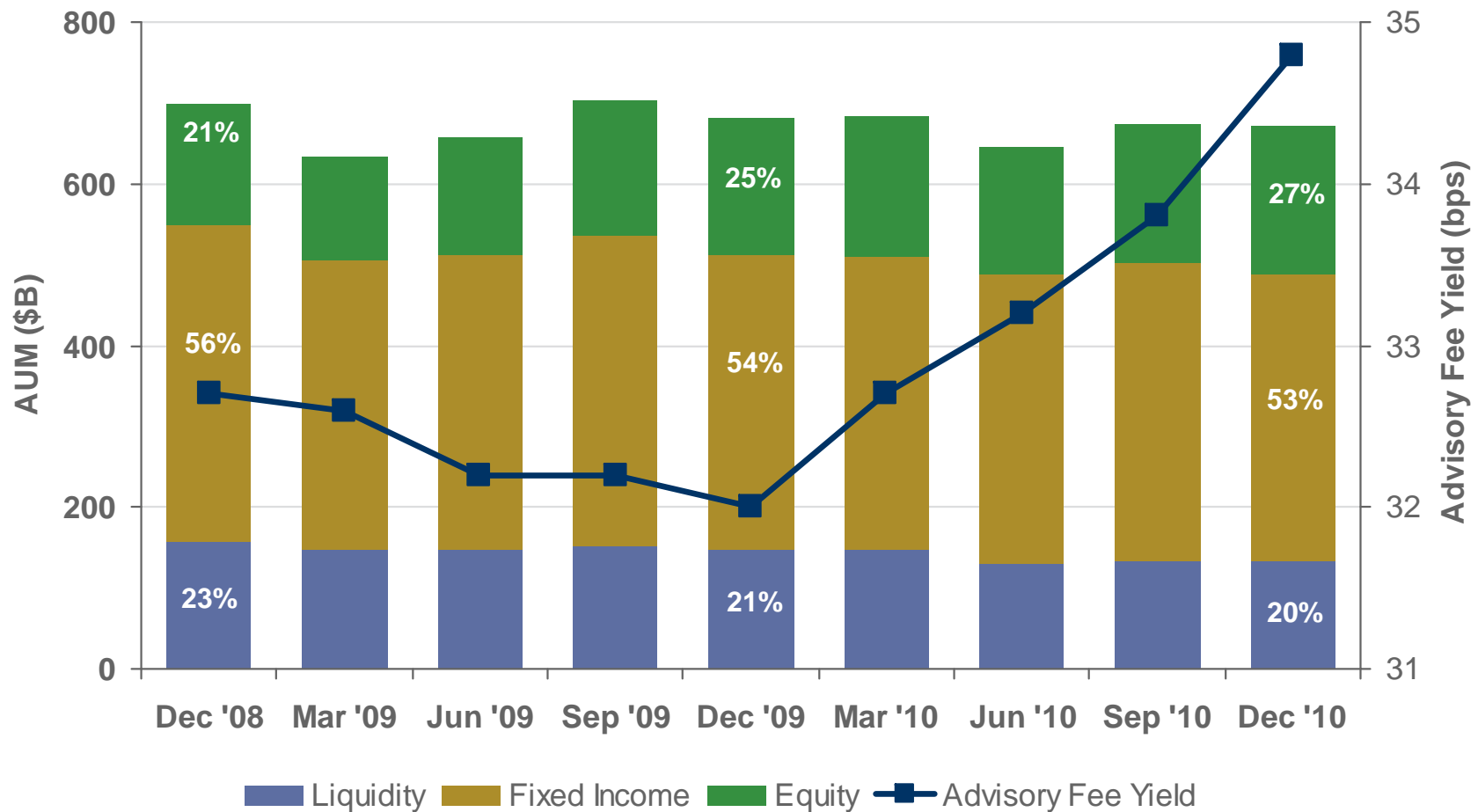
(\$ millions, except per share amounts)	Dec 10 Qtr	Sep 10 Qtr	Dec 09 Qtr	\$ Change vs.	
				Sep 10	Dec 09
<b>Operating Revenues</b>	\$ 721.9	\$ 674.8	\$ 690.5	\$ 47.1	\$ 31.4
<b>Operating Expenses</b>	624.9	586.9	611.3	38.0	13.6
<b>Operating Income</b>	97.0	87.9	79.1	9.1	17.9
<b>Net Income</b>	61.6	75.3	44.9	(13.7)	16.7
<b>Diluted EPS</b>	0.41	0.50	0.28	(0.09)	0.13
<b>Adjusted Income<sup>1</sup></b>	110.3	115.0	93.2	(4.7)	17.1
<b>Adjusted Income per diluted share</b>	0.73	0.76	0.57	(0.03)	0.16
<b>Operating Margin, as adjusted<sup>1</sup></b>	24.3%	24.1%	18.0%		
<b>Effective Tax Rate</b>	38.8%	25.9% <sup>2</sup>	36.0%		

<sup>1</sup> See Appendix for GAAP reconciliation

<sup>2</sup> Sep 10 includes an \$8.9M credit related to a United Kingdom tax benefit

Note: Adjusted income was formerly reported as "Cash income, as adjusted"

# Advisory Fee Yield / Assets Under Management



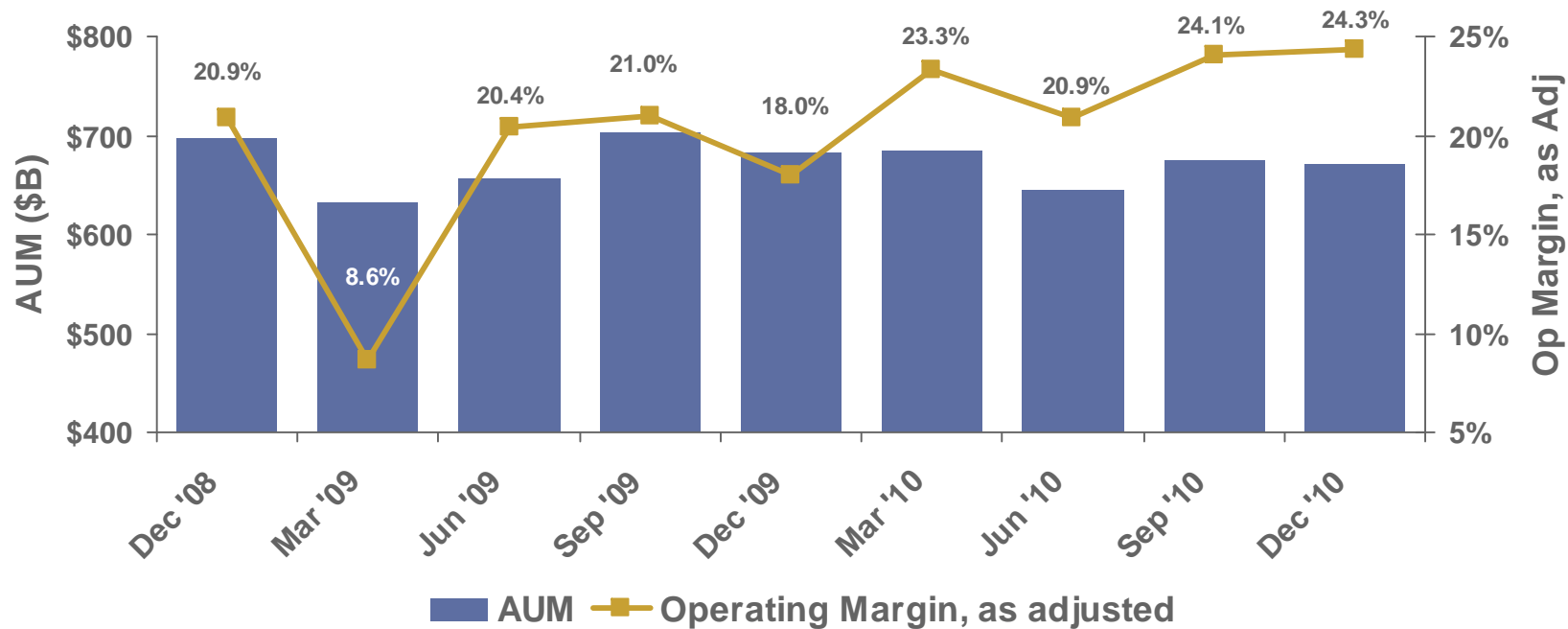
# Operating Expenses

(\$ millions)

	Dec '10	Sep '10	% Chg	Dec '09	% Chg
Compensation and benefits	\$ 309.2	\$ 295.9	4%	\$ 287.7	7%
Distribution and servicing	187.4	165.8	13%	177.7	5%
Communications and technology	39.4	39.3	0%	39.8	(1%)
Occupancy	37.3	33.5	11%	63.2	(41%)
Amortization of intangible assets	5.8	5.7	0%	5.7	1%
Other	45.8	46.7	(2%)	37.2	23%
<b>Total Operating Expenses</b>	<b>\$ 624.9</b>	<b>\$ 586.9</b>	<b>6%</b>	<b>\$ 611.3</b>	<b>2%</b>

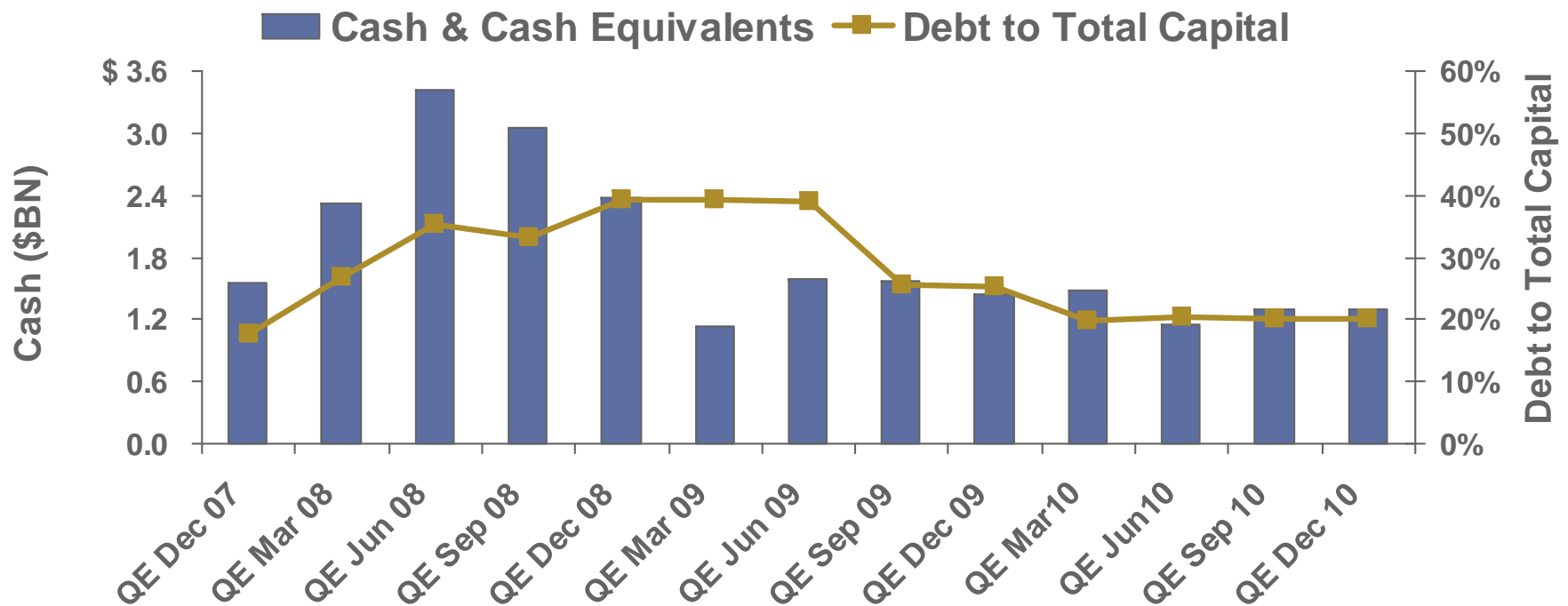
	Dec 10	% of Net Rev. <sup>1</sup>	Sep 10	% of Net Rev.	\$ Change
Salary and incentives	\$ 232.3	43%	\$ 217.3	43%	\$ 15.0
Benefits and payroll taxes	48.4	9%	44.5	8%	3.9
<b>Subtotal Compensation and benefits</b>	<b>280.7</b>	<b>52%</b>	<b>261.8</b>	<b>51%</b>	<b>18.9</b>
Transition-related costs and severance	20.0	4%	12.0	2%	8.0
MTM deferred comp. and seed investments	8.5	2%	22.1	5%	(13.6)
<b>Total Compensation and Benefits</b>	<b>\$ 309.2</b>	<b>58%</b>	<b>\$ 295.9</b>	<b>58%</b>	<b>13.3</b>

# Operating Margin, as Adjusted



- Dec 10 and Sep 10 quarters exclude \$24.0M and \$11.6M, respectively of transition-related expenses
- Impact of closed-end fund launch on Dec 10 quarter operating margin, as adjusted was 1.5%

# Total Debt to Total Capital



## CY 2008

- 3/08: Raised \$1.25B from KKR through a sale of 2.5% convertible senior notes
- 6/08: Raised \$1.15B through a sale of Equity units
- 9/08: Repaid \$425M of senior notes
- 12/08: Realized cash charge for SIV support of \$832M

## CY 2009

- 3/09: Realized cash charge for SIV support of \$832M
- 6/09: Received \$580M tax refund
- 12/09: Exchanged 91% of equity units, reducing debt by \$1B

## CY 2010

- 3/10: Received \$459M tax refund and repaid \$550M of term loan
- 6/10: \$300M repurchase of LM common stock
- 9/10: \$20M repurchase of LM common stock
- 12/10: \$40M repurchase of LM common stock



# Balance Sheet and Credit Ratings

- Cash of \$1.3B
- Total debt of \$1.4B
- Total debt to total capital ratio of 20%
- Significant debt reduction year over year
- Strong quarterly cash generation
- Credit Ratings as of December 31<sup>st</sup> 2010:

Agency	Rating	Outlook
Moody's	Baa1	Stable
S&P	BBB+	Negative
Fitch	BBB+	Stable

## Investing With & In Affiliates

### Deploy LM's capital to help fuel Affiliate growth and add investment talent / capabilities

- Seed Capital Investment
  - Incubation of products with significant growth potential
  - Launch differentiated products that leverage Affiliates' investment capabilities and LM distribution
  - Total seed capital balance of approximately \$375 million as of December 31, 2010
- Bolt-On Acquisitions and Lift-Out Opportunities
  - Add investment talent and capabilities
  - Broaden investment and management team depth
  - Access new markets / channels / products
  - Remain disciplined on price
  - Financial key is the ability to deliver AUM and enhance growth

# Investing with Affiliates in New Product Launches

## Top 10 product launches since 2007

Fund	Launch Date	Assets at Dec-10
LM Brazilian Government Bond Fund	Oct-08	\$ 3.5B
ClearBridge Energy MLP Fund Inc.	Jun-10	\$ 1.8B
LM Global Plus	Aug-07	\$ 1.7B
RLJ Western Asset Public/Private Master Fund	Nov-09	\$ 1.4B
Legg Mason Global Multi Sector Strategy Fund	May-08	\$ 784M
Legg Mason Batterymarch US Large Cap Equity Fund	Apr-08	\$ 562M
Legg Mason Western Asset Asian Opportunities Bond Fund	Jul-08	\$ 539M
Western Asset High Yield Defined Opportunity Fund Inc.	Nov-10	\$ 427M
Western Asset Global Corporate Defined Opportunity Fund Inc.	Nov-09	\$ 375M
Western Asset Mortgage Defined Opportunity Fund Inc.	Apr-10	\$ 272M

# \$1B Board Authorized Share Repurchase

- 12.6M shares have been repurchased for a total cost of \$376M in the past three quarters

Shares	Transaction
0.5M	Open market repurchase - May 2010
9.2M	Accelerated Share Repurchase – June 2010
1.0M	Additional shares retired when ASR closed - August 2010
0.7M	Open market share repurchase – QE September 2010
1.2M	Open market share repurchase – QE December 2010
<b>12.6M</b>	<b>Total shares repurchased under \$1B Board Authorization announced last year</b>

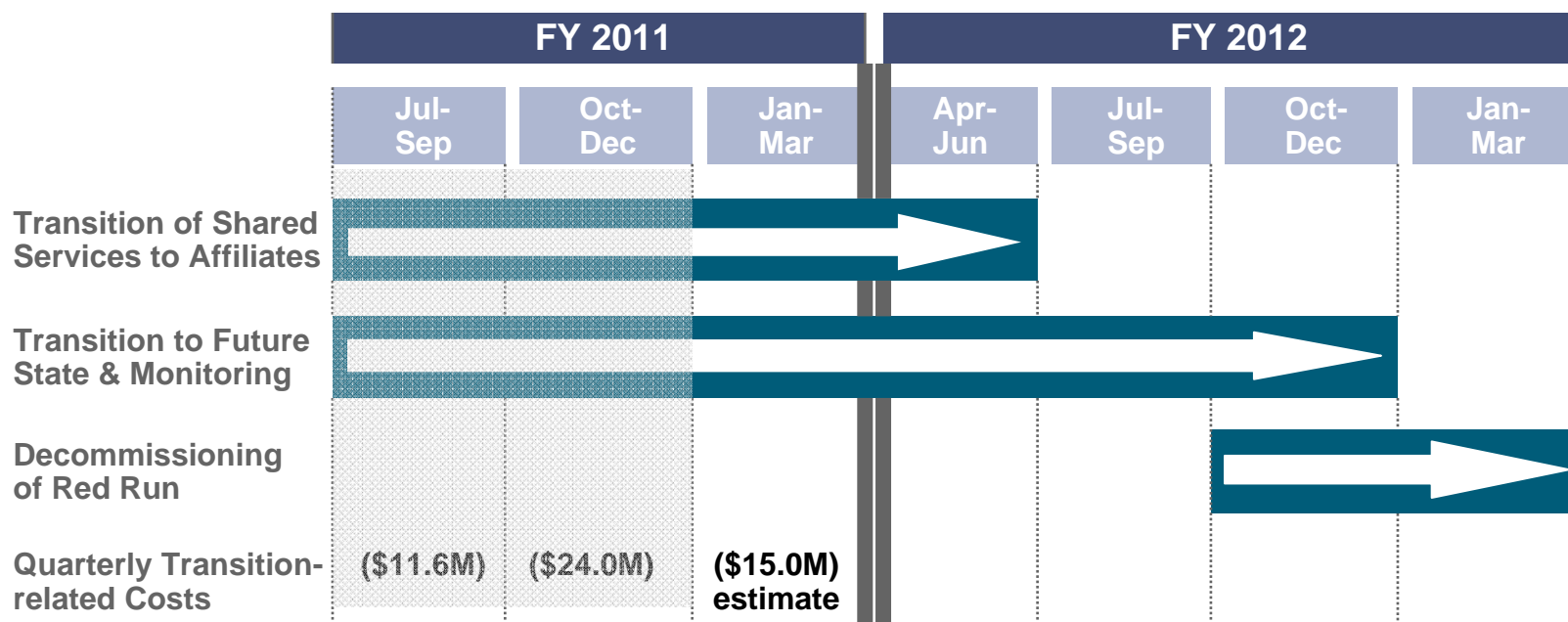
- \$624M remains of the Board authorized stock repurchase of up to \$1B
- Cash & cash equivalents remains strong at \$1.3B, allowing for flexibility in continued share repurchases
- Expect to repurchase up to an additional \$40M of shares by end of FY 2011, subject to market and company performance, actual cash flows and other capital needs

# Update on Streamlining our Business Model

- December 31, 2010 marked six months into streamlining initiative
  - Transition-related expenses incurred to date of approximately \$39M
  - Annualized savings achieved to date approximately \$12M
  - Projected costs and savings related to streamlining initiatives remain on target
    - \$130M - \$150M run rate savings to be fully realized by fourth quarter FY 2012
    - Restructuring and related costs estimated between \$115M - \$135M
- Announced change in Executive Management organization structure
- Fourth quarter of FY 2011 results will include approximately \$15M in transition-related costs

# Timing and Financial Impact of Streamlining

**Expenses associated with streamlining initiative YTD total \$38.7M**



	FY 2011	FY 2012	F4Q12	Run Rate Q4 FY 2012
Estimated Total Impact	(\$35M)	\$15M	\$35M	\$140M

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

# CFO Priorities

- Deliver on streamlining execution
- Support distribution initiatives
- Capital deployment/cash utilization
- Growth initiatives

# Our Strategy to Deliver Value

**Outstanding independent investment managers**

**A corporate center that delivers strategic value**

**A balanced portfolio across asset classes, geographies and channels**





# Our Strategy to Deliver Value

Outstanding independent investment managers

A corporate center that delivers strategic value

A balanced portfolio across asset classes, geographies and channels



# Our Strategy to Deliver Value

Outstanding  
independent  
investment  
managers

A corporate  
center that delivers  
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A balanced portfolio  
across asset  
classes, geographies  
and channels

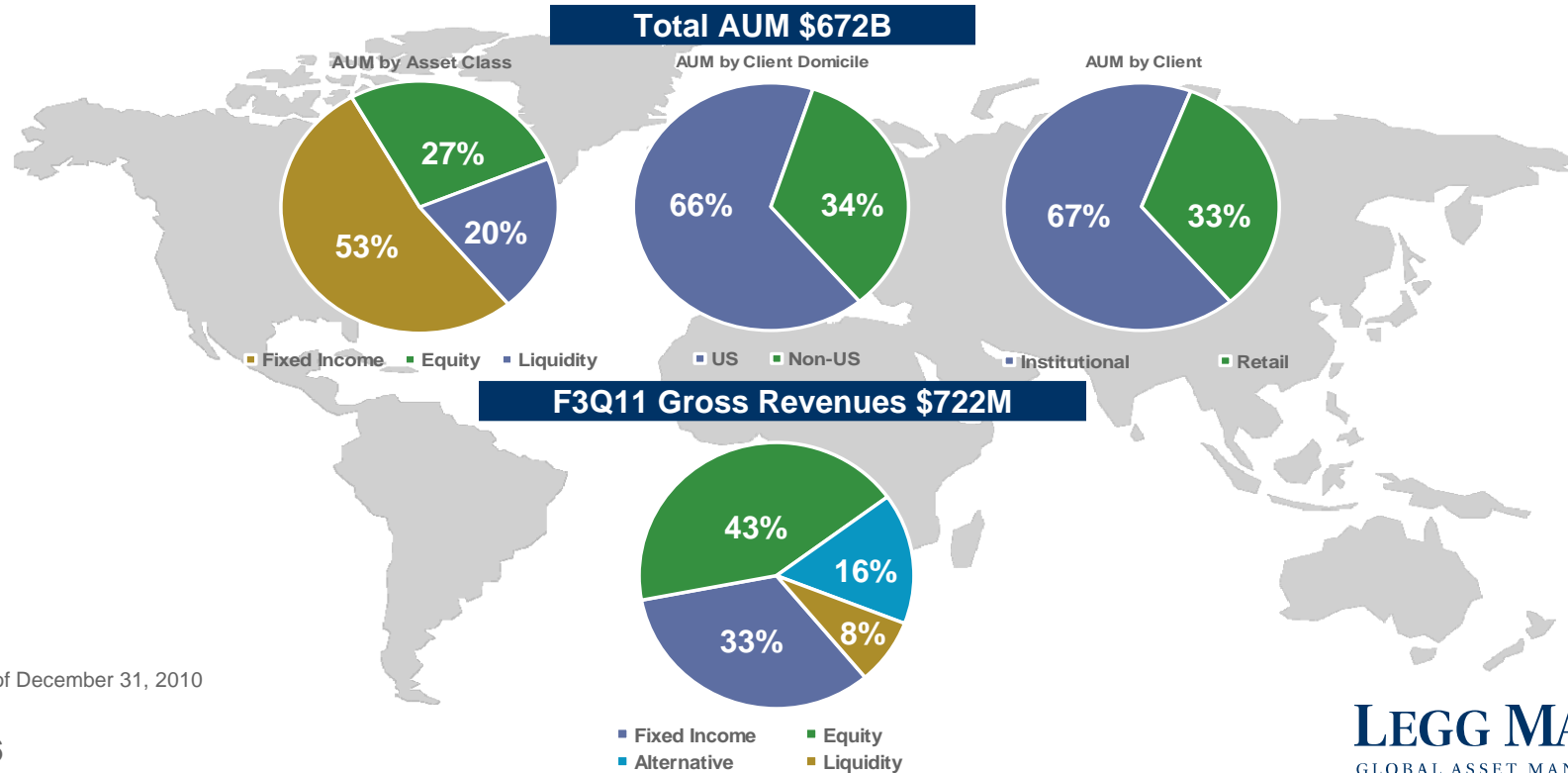


# Our Strategy to Deliver Value

Outstanding independent investment managers

A corporate center that delivers strategic value

A balanced portfolio across asset classes, geographies and channels



Data as of December 31, 2010

## Closing Comments

- Affiliates gaining momentum on improving investment performance
- Flows remain challenged and are a key focus
- Improving product and asset mix leading to higher advisory fee yield
- Operating margin, as adjusted improving
- Continue to make progress on streamlining initiatives
- Strong balance sheet and cash generation

# Appendix

# Appendix - GAAP Reconciliation

## Consolidated Statement of Income excluding Investment Vehicles<sup>1</sup>

	Quarter Ended December 31, 2010			Quarter Ended September 30, 2010			Quarter Ended December 31, 2009		
	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles
(\$ millions)									
<b>Operating Revenues:</b>									
Investment advisory fees	\$ 625.1	\$ 1.1	\$ 626.3	\$ 581.2	\$ 0.9	\$ 582.1	\$ 591.2	\$ 0.8	\$ 592.0
Distribution and service fees	95.5	-	95.5	92.3	0.0	92.4	97.9	-	97.9
Other	1.3	-	1.3	1.3	-	1.3	1.4	-	1.4
Total operating revenues	721.9	1.1	723.1	674.8	1.0	675.8	690.5	0.8	691.3
<b>Operating Expenses:</b>									
Compensation and benefits	309.2	-	309.2	295.9	-	295.9	287.7	-	287.7
Distribution and servicing	187.4	-	187.4	165.8	-	165.8	177.7	-	177.7
Other	128.3	0.5	128.9	125.2	(0.5)	124.7	146.0	0.1	146.1
Total operating expenses	624.9	0.5	625.5	586.9	(0.5)	586.4	611.3	0.1	611.4
<b>Operating Income</b>	<b>97.0</b>	0.6	97.6	<b>87.9</b>	1.5	89.4	<b>79.1</b>	0.8	79.9
<b>Other Non-Operating Income (Expense)</b>									
Net interest income (expense)	(20.2)	-	(20.2)	(22.3)	-	(22.3)	(27.0)	-	(27.0)
Other income (expense)	10.3	7.7	18.0	37.7	(2.7)	35.0	20.1	(2.0)	18.1
Other non-operating income (expense)	(9.8)	7.7	(2.2)	15.4	(2.7)	12.7	(6.9)	(2.0)	(8.9)
<b>Income Before Income Tax Provision</b>	<b>87.2</b>	8.3	95.4	<b>103.3</b>	(1.2)	102.1	<b>72.2</b>	(1.3)	71.0
Income tax provision	33.8	-	33.8	26.7	-	26.7	26.0	-	26.0
<b>Net Income</b>	<b>53.4</b>	8.3	61.6	<b>76.6</b>	(1.2)	75.4	<b>46.2</b>	(1.241)	45.0
Less: Net income (loss) attributable to noncontrolling interests	(8.3)	8.3	0.0	1.3	(1.2)	0.1	1.3	(1.241)	0.1
<b>Net Income Attributable to Legg Mason, Inc.</b>	<b>\$ 61.6</b>	\$ -	\$ 61.6	<b>\$ 75.3</b>	\$ -	\$ 75.3	<b>\$ 44.9</b>	\$ -	\$ 44.9
<b>Effective Income Tax Rate</b>	38.8%			25.9%			36.0%		
<b>Effective Income Tax Rate Excluding Consolidated Investment Vehicles</b>			35.4%			26.2%			36.6%

<sup>1</sup> See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.

## Appendix – GAAP Reconciliation Adjusted Income<sup>1</sup>

	Quarters Ended		
	Dec 10	Sep 10	Dec 09
(\$ millions, except per share amounts)			
<b>Net Income attributable to Legg Mason, Inc.</b>	\$ 61.6	\$ 75.3	\$ 44.9
Plus (Less):			
Amortization of intangible assets	5.8	5.7	5.7
Deferred income taxes on intangible assets:			
Tax amortization benefit	33.7	33.7	33.9
UK tax rate adjustment	-	(8.9)	-
Imputed interest on convertible debt	9.2	9.1	8.6
<b>Adjusted Income</b>	<u>\$ 110.3</u>	<u>\$ 115.0</u>	<u>\$ 93.2</u>
<b>Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders</b>	\$ 0.41	\$ 0.50	\$ 0.28
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.03
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.22	0.22	0.21
UK tax rate adjustment	-	(0.06)	-
Imputed interest on convertible debt	0.06	0.06	0.05
<b>Adjusted Income per Diluted Share</b>	<u>\$ 0.73</u>	<u>\$ 0.76</u>	<u>\$ 0.57</u>

<sup>1</sup> See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.

<sup>2</sup> Net of income taxes.

Note: Adjusted income was formerly reported as "Cash income, as adjusted"

# Appendix – GAAP Reconciliation

## Operating Margin, as adjusted<sup>1</sup>

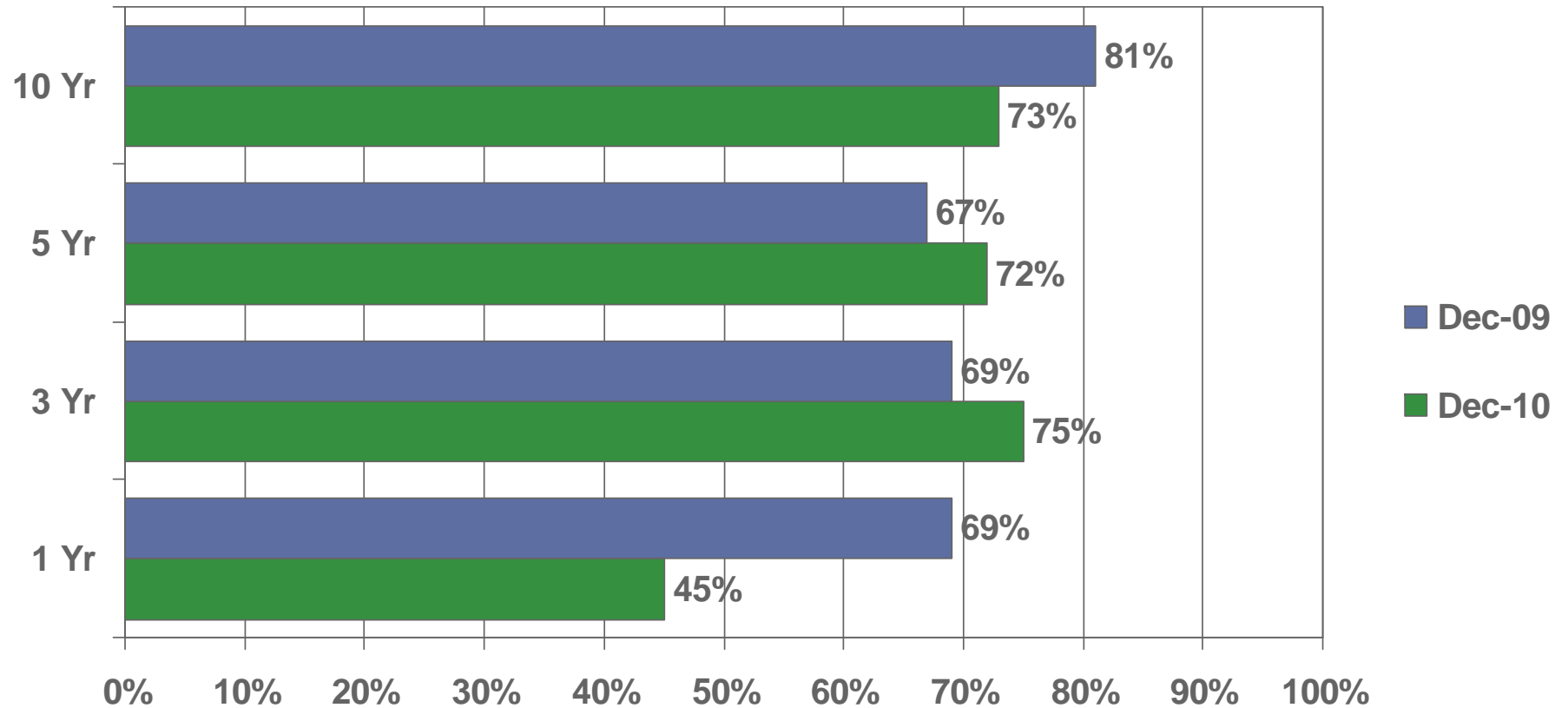
(\$ millions)	Quarters Ended								
	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
<b>Operating Revenues, GAAP basis</b>	\$ 720.0	\$ 617.2	\$ 613.1	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	-	1.2	0.8	0.6	0.9	0.5	0.8	1.0	1.2
Distribution and servicing expense excluding consolidated investment vehicles	(202.5)	(180.6)	(172.4)	(174.4)	(177.6)	(167.4)	(184.7)	(165.8)	(187.4)
<b>Operating Revenues, as adjusted</b>	<u>\$ 517.5</u>	<u>\$ 437.8</u>	<u>\$ 441.4</u>	<u>\$ 486.1</u>	<u>\$ 513.7</u>	<u>\$ 504.5</u>	<u>\$ 490.3</u>	<u>\$ 509.9</u>	<u>\$ 535.7</u>
<b>Operating Income (Loss)</b>	\$ (1,073.0)	\$ (45.3)	\$ 58.3	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	(44.0)	(1.9)	31.4	24.1	12.6	11.2	(4.6)	22.1	8.6
Transition-related costs	-	-	-	-	-	-	3.2	11.6	24.0
Operating income and expenses of consolidated investment vehicles	-	1.9	0.3	0.2	0.8	0.8	1.2	1.5	0.6
Impairment charges	1,225.1	82.9	-	-	-	-	-	-	-
<b>Operating Income, as adjusted</b>	<u>\$ 108.1</u>	<u>\$ 37.6</u>	<u>\$ 90.0</u>	<u>\$ 102.2</u>	<u>\$ 92.5</u>	<u>\$ 117.8</u>	<u>\$ 102.6</u>	<u>\$ 123.1</u>	<u>\$ 130.2</u>
Operating margin, GAAP basis	-149.0%	-7.3%	9.5%	11.8%	11.5%	15.8%	15.2%	13.0%	13.4%
Operating margin, as adjusted	20.9%	8.6%	20.4%	21.0%	18.0%	23.3%	20.9%	24.1%	24.3%

<sup>1</sup> See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.



# Appendix - Long-Term Fund Performance

% of Long-Term U.S. Fund Assets beating Lipper Category Average<sup>1</sup>



<sup>1</sup> As of December 31, 2010, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.  
Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund.  
Individual fund performance will differ.