

# Annual Shareholders Meeting

July 26, 2011



# 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, 2011 and in the Company’s quarterly reports on Form 10-Q.

# A Year of Focus and Progress

- Net Income increased 24% over prior year to \$254M or \$1.63 per diluted share
- Aggressively pursued our value creation and streamlining initiatives
  - Solidified our strategic objectives
  - Realigned our Executive Management team
  - Achieved first phase of targeted cost reductions
- 70%+ of marketed composite AUM<sup>1</sup> beating benchmark for 1-, 3-, 5- and 10- year periods
- Raised \$4.1B in new product launches
- Reduced level of long-term AUM net outflows by 43%
- Repurchased and retired 14.6M shares of common stock
- Maintained strong balance sheet and excess cash position
- Increased quarterly dividend to \$0.08 from \$0.03 in March 2010

# 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

**GOVERNANCE  
GROUP**

# Our Core – A Portfolio of World Class Affiliates

Outstanding  
independent  
investment  
managers

A corporate  
center that delivers  
strategic value

A growth oriented  
portfolio across asset  
classes, geographies  
and channels



# Corporate Center's Strategic Value

Outstanding independent investment managers

A corporate center that delivers strategic value

A growth oriented portfolio across asset classes, geographies and channels

- 
- Global Retail Distribution
  - Business Development
  - Capital Allocation
    - \$1B excess cash
    - Seed capital investment
    - Bolt-on/Lift-out opportunities
    - Share repurchases
    - Dividend increase
  - Governance (“No Chalk”)

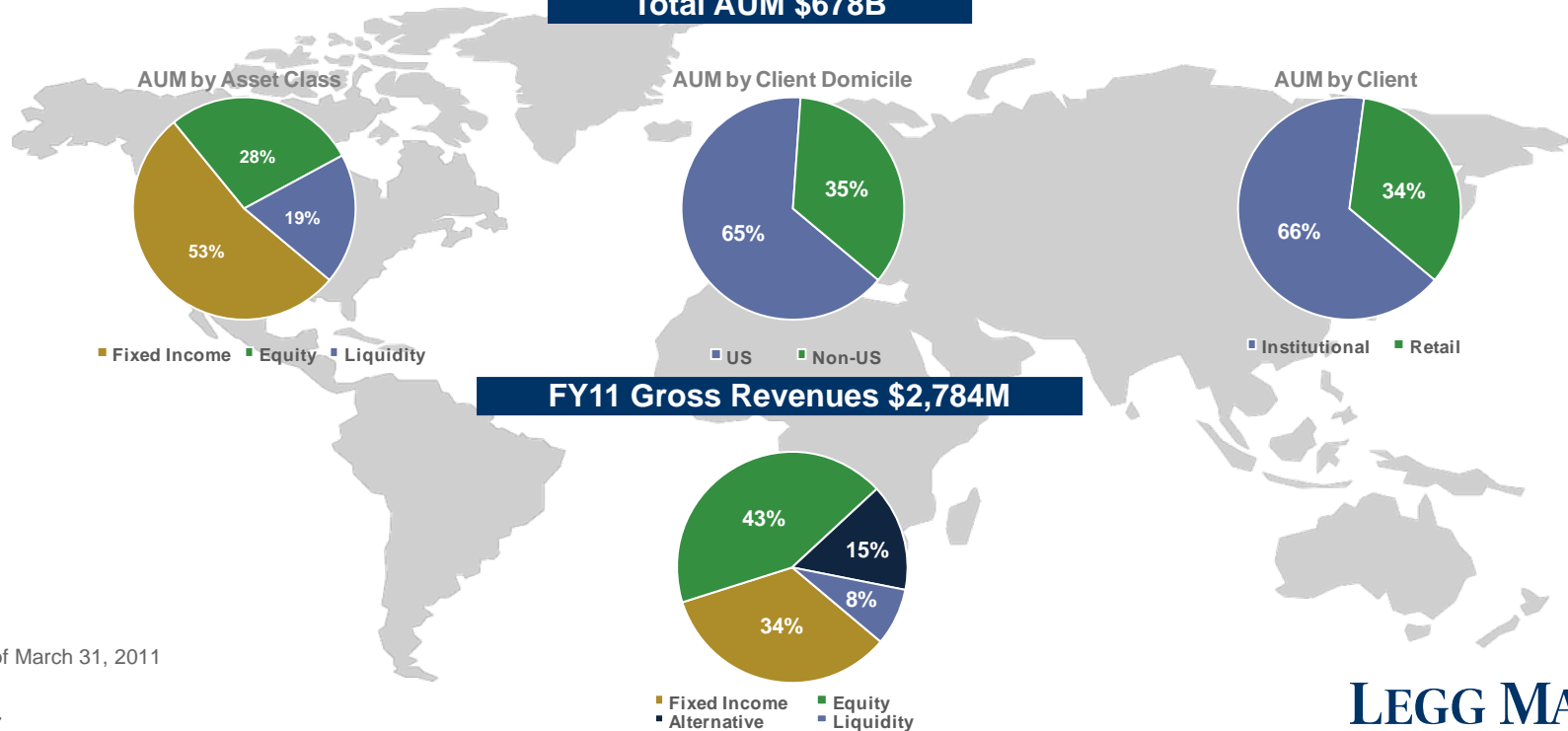
# Diversity & Scale

Outstanding independent investment managers

A corporate center that delivers strategic value

A growth oriented portfolio across asset classes, geographies and channels

Total AUM \$678B



Data as of March 31, 2011



# Strength of Business

(\$ in Billions)

## Managers by Worldwide Assets

Rank	Firm	AUM (\$B)
1	BlackRock	\$3,561
2	State Street Global	2,010
3	Fidelity Investments	1,812
4	Vanguard Group	1,765
5	JPMorgan Asset Mgmt	1,298
6	PIMCO	1,242
7	BNY Mellon Asset Mgmt	1,172
8	Capital Research	1,091
9	Amundi	921
10	Goldman Sachs	840
11	Prudential	784
12	Deutsche Asset Mgmt	730
13	AXA Investment	692
14	BNP Paribas Investment	685
<b>15</b>	<b>Legg Mason</b>	<b>672</b>

Source: Pensions & Investments, December 31, 2010

## Top Worldwide Institutional Managers

Rank	Firm	AUM (\$B)
1	BlackRock	\$2,556
2	State Street Global	1,744
3	BNY Mellon Asset Mgmt	1,042
4	Vanguard Group	1,017
5	Fidelity Investments	1,014
6	PIMCO	1,005
7	JPMorgan Asset Mgmt	738
8	Amundi	679
9	Wellington Mgmt	633
10	AXA Investment	628
11	Prudential	564
<b>12</b>	<b>Legg Mason</b>	<b>562</b>
13	Northern Trust	489
14	BNP Paribas Investment	425
15	Legal & General Investment	423

Source: Pensions & Investments, December 31, 2010

# Strength of Business

(\$ in Billions)

## Largest Small Cap Mutual Fund Managers

Rank	Firm	AUM (\$B)
1	Fidelity	\$55.5
2	Vanguard	47.3
<b>3</b>	<b>Royce &amp; Associates</b>	<b>37.1</b>
4	Columbia	31.8
5	DFA	31.7
6	T Rowe Price	24.7
7	Neuberger Berman	12.3
8	Baron Cap Mgmt	11.1
9	Wells Fargo	9.8
10	BlackRock	8.2

Source: Strategic Insight, March 2011  
Data includes Domestic Open-End Small Cap Mutual Funds

## Largest Hedge Fund of Funds

Rank	Firm	AUM (\$B)
1	Blackstone	\$28.5
2	HSBC	26.8
3	UBS	24.2
4	Grosvenor	23.0
5	Goldman Sachs	20.8
<b>6</b>	<b>Permal</b>	<b>19.0</b>
7	Morgan Stanley	17.5
8	GAM Multi-Mananger	17.0
9	BlackRock	16.8
10	Pacific Alternative Asset	16.6

Source: InvestHedge, June 2010

# Strength of Business

(\$ in Billions)

Top US Based Fixed Income Managers		
Rank	Firm	AUM (\$B)
1	BlackRock	\$1,292
2	Allianz/PIMCO	1,111
3	Prudential	423
4	Vanguard	422
5	State Street	404
<b>6</b>	<b>Legg Mason</b>	<b>367</b>
7	Goldman Sachs	340
8	JP Morgan	290
9	Wellington	279
10	Franklin Templeton	268

Source: Institutional Investor US Money Managers Ranking, December 31, 2010

Top Active Domestic Fixed Income Managers		
Rank	Firm	AUM (\$B)
1	PIMCO	\$300.5
<b>2</b>	<b>Legg Mason</b>	<b>159.2</b>
3	BlackRock	156.9
4	TIAA-CREF	125.0
5	Prudential Financial	120.1
6	Loomis, Sayles	95.6
7	JP Morgan	85.1
8	Principal Global Investors	68.0
9	Fidelity	62.3
10	Wellington	62.0

Source: Pension & Investments, December 31, 2010  
US institutional, tax-exempt assets

# Strength of Business

(\$ in Billions)

## Top Managers of Sovereign Wealth Fund Assets

Rank	Firm	AUM (\$B)
1	State Street	\$322.4
2	BlackRock	70.6
3	Northern Trust	50.6
<b>4</b>	<b>Legg Mason</b>	<b>41.0</b>
5	JP Morgan	37.0
6	Goldman Sachs	33.0
7	PIMCO	30.6
8	T Rowe Price	21.6
9	Morgan Stanley	13.6
10	HSBC Global Asset	13.3

Source: Pension & Investments, December 31, 2010

## Top Closed End Fund Managers

Rank	Firm	AUM (\$B)
1	Nuveen Investments	\$45.6
2	BlackRock	37.1
3	Eaton Vance	23.5
4	Allianz Gbl	14.1
5	Invesco	12.9
<b>6</b>	<b>Legg Mason</b>	<b>12.7</b>
7	Calamos	7.9
8	Gabelli	6.5
9	ING Investments	6.1
10	Cohen & Steers	5.6

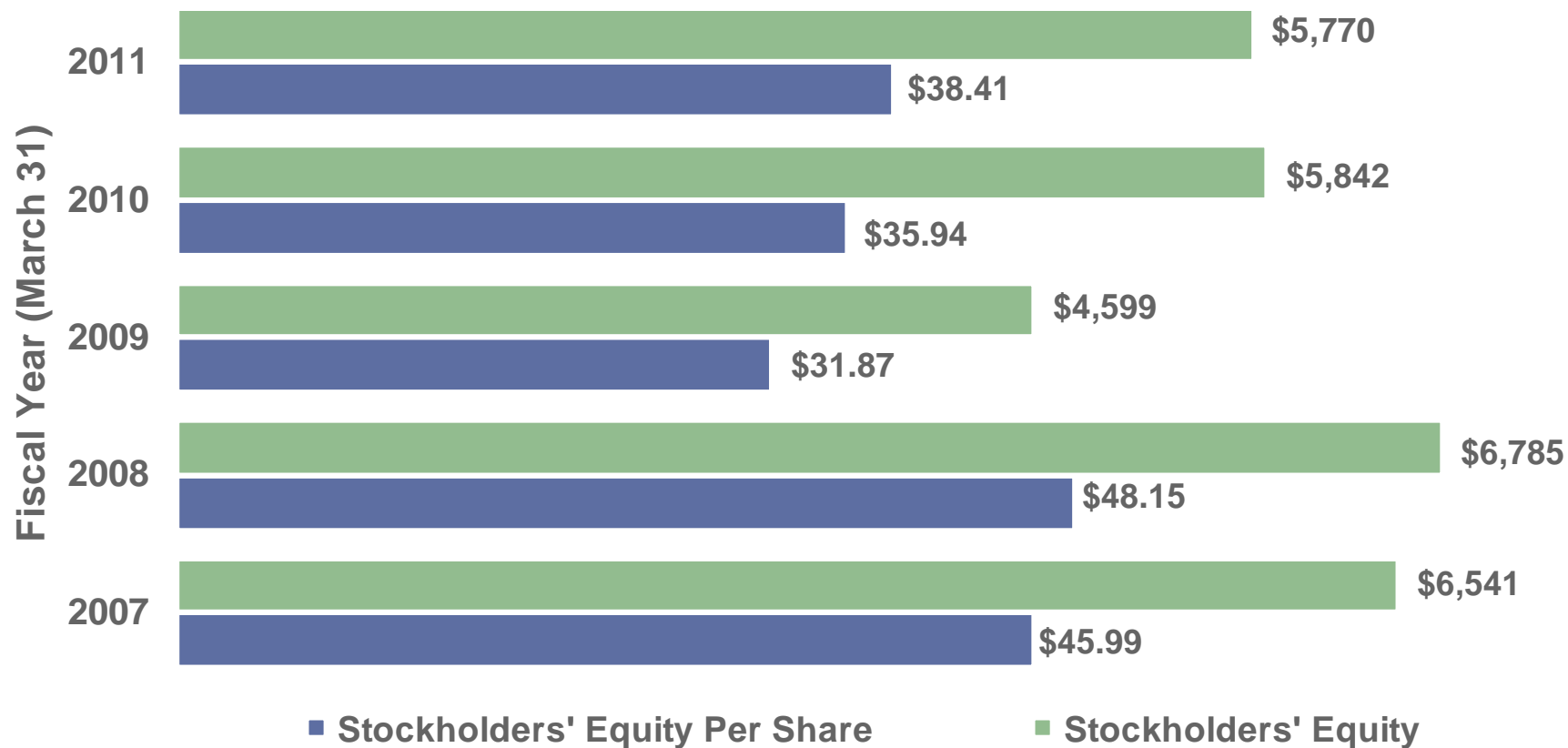
Source: Strategic Insight, June 30, 2011

# Financial Highlights FY 2011

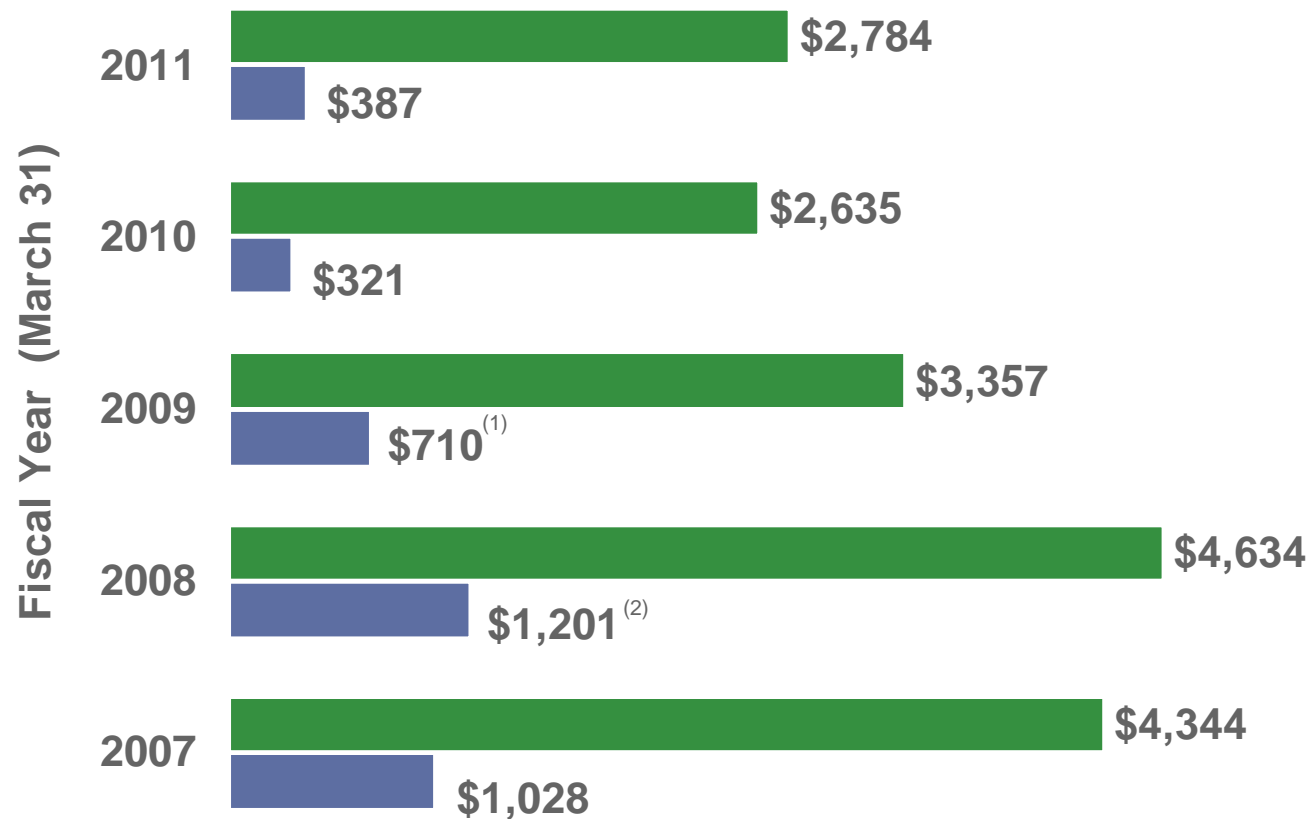
- FY 2011 net income of \$254M or \$1.63 per diluted share, compared to \$204M or \$1.32 in FY 2010
  - Average AUM for FY 2011 was \$669B, down 1% from FY 2010
  - Operating revenues of \$2.8B increased \$149M or 6% driven by a more favorable AUM mix and higher performance fees
  - Operating expenses of \$2.4B increased \$84M or 4% and include \$54M of transition-related costs
  - Operating income of \$387M increased 20% or \$66M; operating margin improved to 13.9%
  - Adjusted income<sup>1</sup>, of \$439M or \$2.83 per diluted share, increased from \$381M or \$2.45 per diluted share
  - Operating margin, as adjusted<sup>1</sup>, of 23.2%, compared to 20.7% in FY 2010

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

# Stockholders' Equity



# Revenues and Operating Income



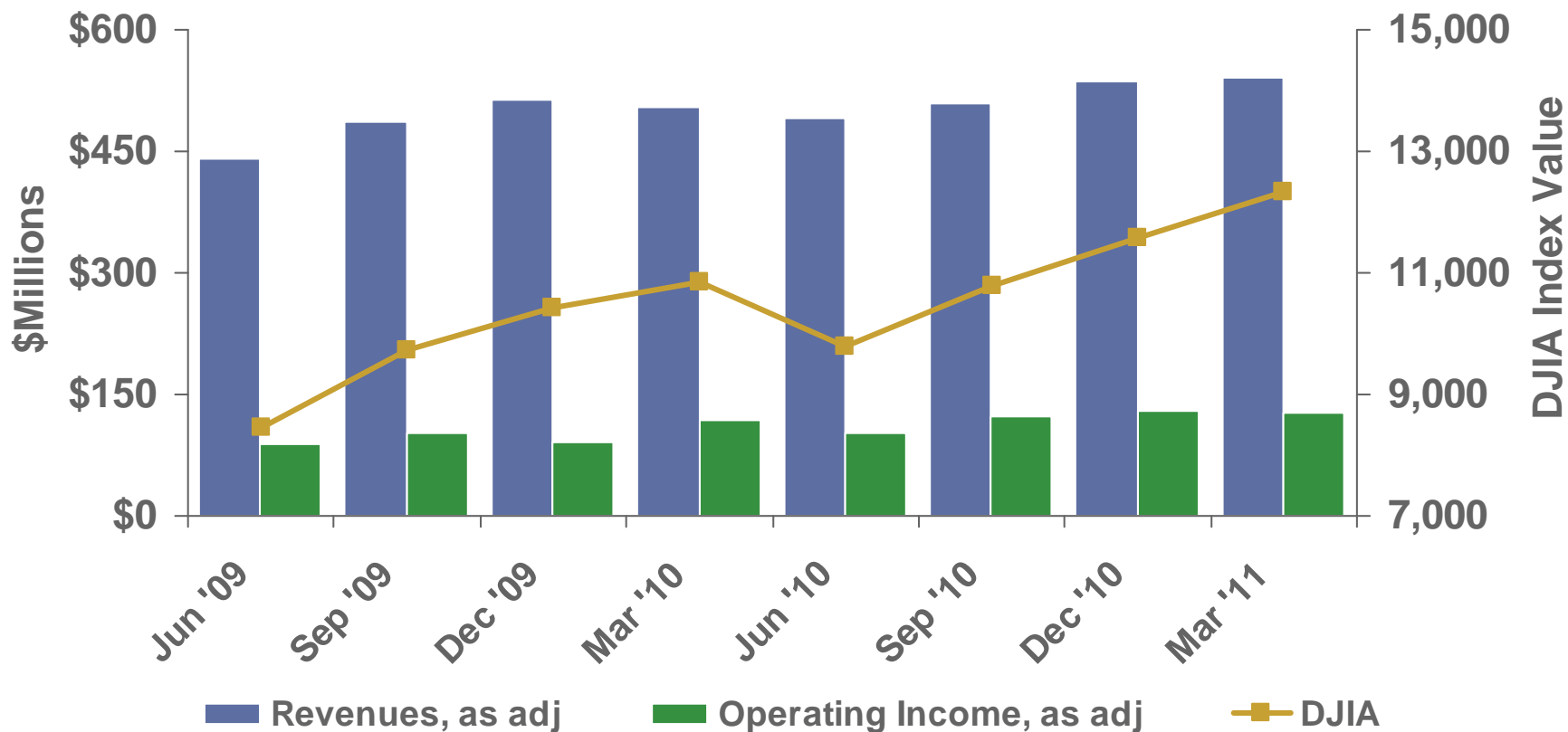
(in Millions)

■ Operating Income    ■ Revenues

1 Operating income, as reported for FY2009 (\$669M) adjusted \$1,308M for impairment of intangibles & \$71M for real estate lease losses

2 Operating income, as reported for FY2008 \$1,050M adjusted \$151M for impairment of intangibles

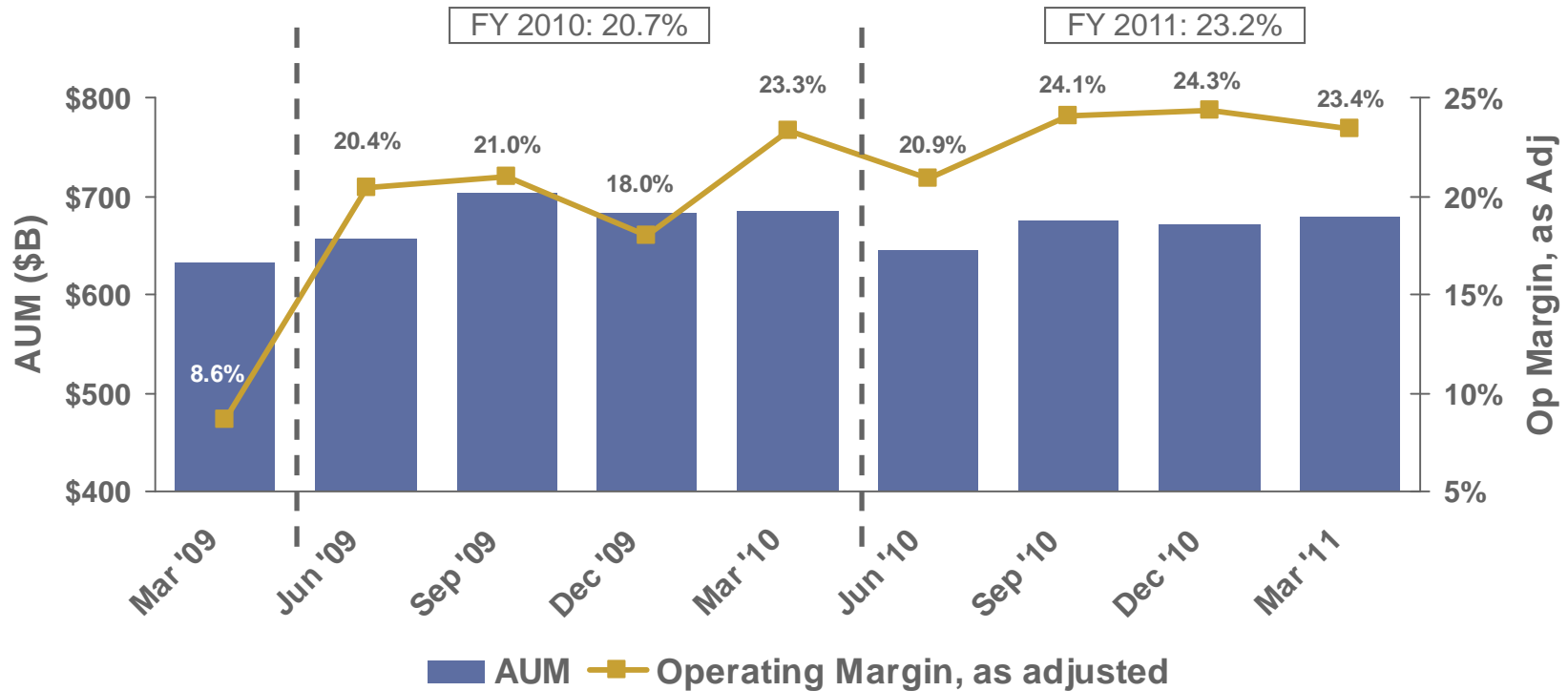
# Revenues and Operating Income, as Adjusted



Note: See Appendix for GAAP reconciliation

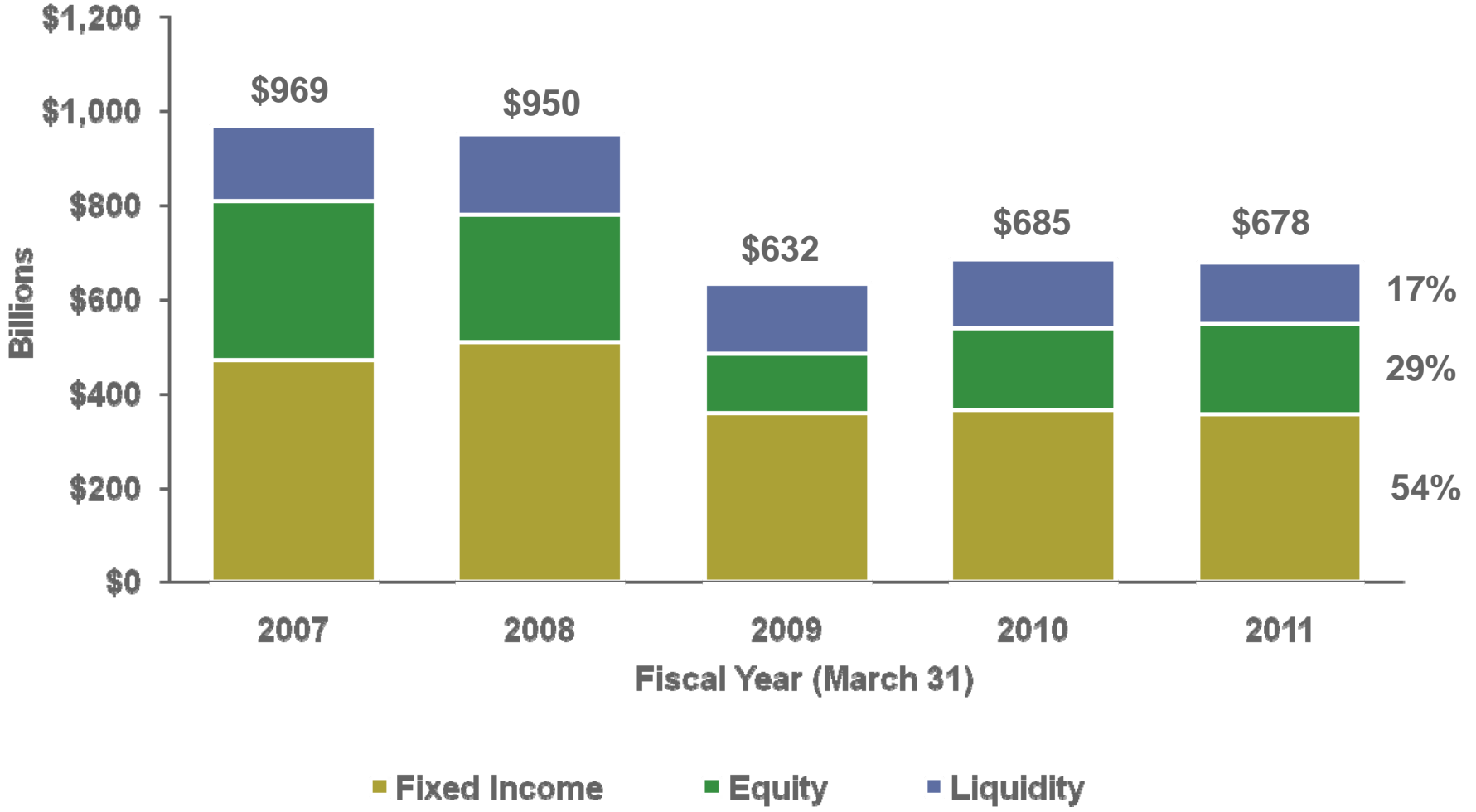


# Operating Margin, as Adjusted



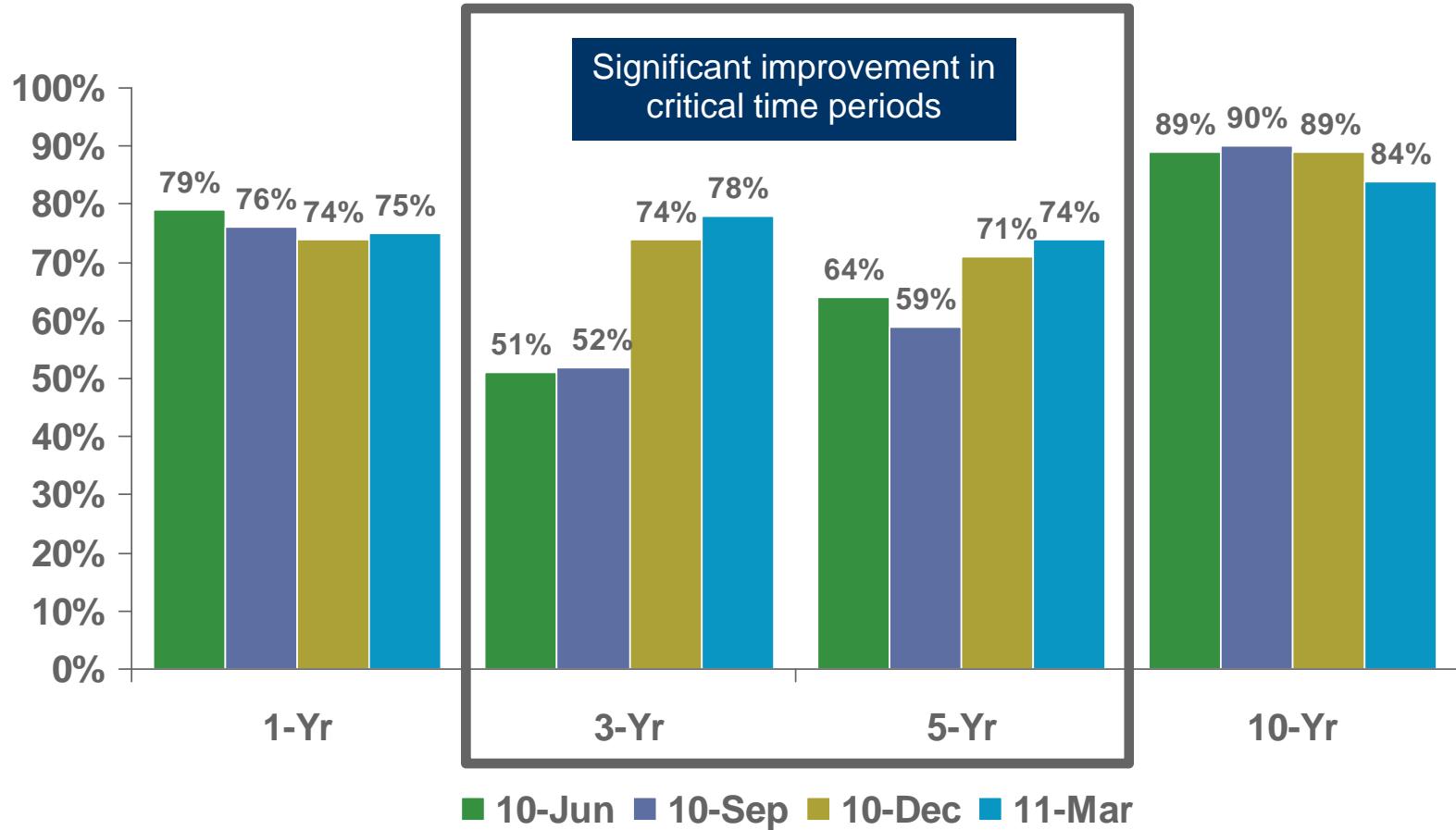
- Compared to FY 2010, operating margin, as adjusted increased to 23.2% from 20.7%
  - Improvement over prior year due to change in AUM mix and reduction in non-compensation expenses

# Assets Under Management



# Composite Performance

% of Composite AUM Beating Benchmark<sup>1</sup> (includes liquidity)



<sup>1</sup> Covers approximately 90% of total AUM

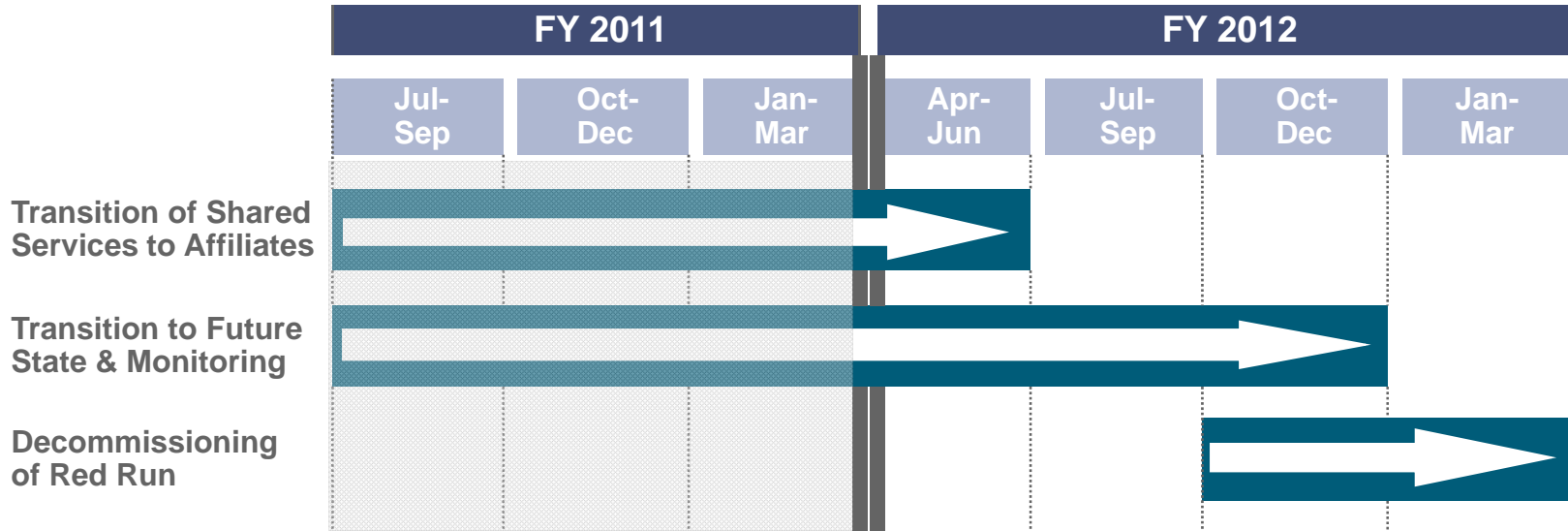
# Recent Affiliates Achievements



- *Barron's* Annual Fund Family Ranking for 2010 ranked Legg Mason #8 overall; and #2 in Taxable Bonds
- Brandywine Global was named Bond Manager of the Year for 2010 by Money Management Letter for its global fixed income strategies
- Permal received the top award for one of its funds at InvestHedge's annual awards, winning for 10- year performance for the period ended December 31, 2010 for funds with assets of greater than \$1 billion
- Western Asset and Royce & Associates each won three awards in the 2011 Lipper US Fund Awards
- Legg Mason was the #1 issuer of closed-end funds in 2010<sup>1</sup>
  - Launched the ClearBridge Energy MLP Opportunity Fund Inc in June 2011, which raised \$621M (assuming full exercise of underwriters' over allotment option)

<sup>1</sup> Source: The Closed-End Fund Association and SEC.gov

# Update on Streamlining our Business Model



- Transition-related expenses incurred to date of approximately \$54M
- Savings realized in FY 2011 of \$12M, including \$8M in Q4
- Projected costs and savings related to streamlining initiatives remain on target
  - \$130M - \$150M annualized savings to be fully realized by fourth quarter FY 2012
  - Restructuring and related costs estimated between \$125M - \$135M

# Closing Comments

- A Strong Fiscal Year 2011
  - Improved earnings – net income up 24% and expanded operating margins
  - Initiated streamlining of business model and realigned management team
  - Strong balance sheet with \$1.4B in cash and approximately \$1B available cash
  - Improved performance, flows and asset mix
  - Product innovation with 3 closed-end funds launched – leading the industry
  - Board authorized \$1B for share repurchase
    - Bought back 14.6M or 9% of March 31, 2010 outstanding shares
- Key Themes for FY 2012
  - Support affiliates on client performance and franchise expansion
  - Complete our streamlining on time, on task and on budget
  - Focus on quality business
  - Exploit growth opportunities and accelerate growth through LM distribution
  - Smartly return capital to shareholders through accelerated share repurchase and dividends

**LEGG MASON**

GLOBAL ASSET MANAGEMENT

# Appendix



# Appendix - GAAP Reconciliation

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

(\$ millions)	Quarter Ended March 31, 2011			Quarter Ended December 31, 2010			Quarter Ended March 31, 2010		
	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
<b>Operating Revenues:</b>									
Investment advisory fees	\$ 616.1	\$ 1.2	\$ 617.4	\$ 625.1	\$ 1.1	\$ 626.3	\$ 573.9	\$ 0.5	\$ 574.4
Distribution and service fees	95.0	-	95.0	95.5	-	95.5	96.1	-	96.1
Other	2.3	-	2.3	1.3	-	1.3	1.4	-	1.4
Total operating revenues	713.4	1.2	714.7	721.9	1.1	723.1	671.4	0.5	671.9
<b>Operating Expenses:</b>									
Compensation and benefits	311.5	-	311.5	309.2	-	309.2	267.3	-	267.3
Distribution and servicing	174.9	(0.1)	174.8	187.4	-	187.4	167.4	(0.0)	167.4
Other	127.9	(0.1)	127.8	128.3	0.5	128.9	130.9	(0.2)	130.7
Total operating expenses	614.3	(0.1)	614.2	624.9	0.5	625.5	565.6	(0.2)	565.4
<b>Operating Income</b>	<b>99.1</b>	1.4	100.5	<b>97.0</b>	0.6	97.6	<b>105.8</b>	0.8	106.6
<b>Other Non-Operating Income (Expense)</b>									
Net interest income (expense)	(19.5)	-	(19.5)	(20.2)	-	(20.2)	(23.5)	-	(23.5)
Other income (expense)	23.0	(3.0)	19.9	10.3	7.7	18.0	19.4	(2.2)	17.2
Other non-operating income (expense)	3.5	(3.0)	0.5	(9.8)	7.7	(2.2)	(4.1)	(2.2)	(6.3)
<b>Income Before Income Tax Provision</b>	<b>102.6</b>	<b>(1.7)</b>	<b>101.0</b>	<b>87.2</b>	<b>8.3</b>	<b>95.4</b>	<b>101.7</b>	<b>(1.4)</b>	<b>100.3</b>
Income tax provision	31.9	-	31.9	33.8	-	33.8	36.6	-	36.6
<b>Net Income</b>	<b>70.8</b>	<b>(1.7)</b>	<b>69.1</b>	<b>53.4</b>	<b>8.3</b>	<b>61.6</b>	<b>65.1</b>	<b>(1.4)</b>	<b>63.7</b>
Less: Net income (loss) attributable to noncontrolling interests	1.7	(1.7)	0.1	(8.3)	8.3	0.0	1.5	(1.4)	0.0
<b>Net Income Attributable to Legg Mason, Inc.</b>	<b>\$ 69.0</b>	<b>\$ -</b>	<b>\$ 69.0</b>	<b>\$ 61.6</b>	<b>\$ -</b>	<b>\$ 61.6</b>	<b>\$ 63.6</b>	<b>\$ -</b>	<b>\$ 63.6</b>
<b>Effective Income Tax Rate</b>	31.0%			38.8%			36.0%		
<b>Effective Income Tax Rate Excluding Consolidated Investment Vehicles</b>			31.6%			35.4%			36.5%

<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>

(\$ millions, except per share amounts)	Quarters Ended			Twelve Months Ended	
	Mar 11	Dec 10	Mar 10	Mar 11	Mar 10
<b>Net Income attributable to Legg Mason, Inc.</b>	\$ 69.0	\$ 61.6	\$ 63.6	\$ 253.9	\$ 204.4
Plus (Less):					
Amortization of intangible assets	5.7	5.8	5.7	22.9	22.8
Deferred income taxes on intangible assets:					
Tax amortization benefit	33.6	33.7	33.1	134.6	136.3
UK tax rate adjustment	-	-	-	(8.9)	-
Imputed interest on convertible debt	9.4	9.2	8.9	36.7	34.4
Net money market fund support gains <sup>2</sup>	-	-	-	-	(16.6)
<b>Adjusted Income</b>	<u>\$ 117.7</u>	<u>\$ 110.3</u>	<u>\$ 111.3</u>	<u>\$ 439.2</u>	<u>\$ 381.3</u>
<b>Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders</b>	\$ 0.45	\$ 0.41	\$ 0.39	\$ 1.63	\$ 1.32
Plus (Less):					
Amortization of intangible assets	0.04	0.04	0.04	0.15	0.14
Deferred income taxes on intangible assets:					
Tax amortization benefit	0.22	0.22	0.20	0.87	0.88
UK tax rate adjustment	-	-	-	(0.06)	-
Imputed interest on convertible debt	0.06	0.06	0.06	0.24	0.22
Net money market fund support gains <sup>2</sup>	-	-	-	-	(0.11)
<b>Adjusted Income per Diluted Share</b>	<u>\$ 0.77</u>	<u>\$ 0.73</u>	<u>\$ 0.69</u>	<u>\$ 2.83</u>	<u>\$ 2.45</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									Twelve Months Ended	
	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Mar 10	Mar 11
<b>Operating Revenues, GAAP basis</b>	\$ 617.2	\$ 613.1	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 2,634.9	\$ 2,784.3
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	1.2	2.8	4.1
Distribution and servicing expense excluding consolidated investment vehicles	<u>(180.6)</u>	<u>(172.4)</u>	<u>(174.4)</u>	<u>(177.6)</u>	<u>(167.4)</u>	<u>(184.7)</u>	<u>(165.8)</u>	<u>(187.4)</u>	<u>(174.8)</u>	<u>(691.9)</u>	<u>(712.8)</u>
<b>Operating Revenues, as adjusted</b>	<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>	<u>\$ 539.8</u>	<u>\$ 1,945.8</u>	<u>\$ 2,075.7</u>
<b>Operating Income (Loss)</b>	\$ (45.3)	\$ 58.3	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 321.2	\$ 386.8
Plus (Less):											
Gains (losses) on deferred compensation and seed investments	(1.9)	31.4	24.1	12.6	11.2	(4.6)	22.1	8.6	10.2	79.3	36.3
Transition-related costs	-	-	-	-	-	3.2	11.6	24.0	15.7	-	54.4
Operating income and expenses of consolidated investment vehicles	1.9	0.3	0.2	0.8	0.8	1.2	1.5	0.6	1.4	2.1	4.7
Impairment charges	<u>82.9</u>	-	-	-	-	-	-	-	-	-	-
<b>Operating Income, as adjusted</b>	<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>	<u>\$ 126.4</u>	<u>\$ 402.6</u>	<u>\$ 482.2</u>
Operating margin, GAAP basis	-7.3%	9.5%	11.8%	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	12.2%	13.9%
Operating margin, as adjusted	8.6%	20.4%	21.0%	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	20.7%	23.2%

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