

Credit Suisse Financial
Services Forum
February 9, 2012

Peter H. Nachtwey
Chief Financial Officer



Forward-Looking Statements

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

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

For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2011 and in the Company’s quarterly reports on Form 10-Q.

Agenda

- Corporate overview
- AUM & flows
- Distribution
- Earnings highlights
- Balance sheet
- Streamlining our business model
- Positioned for long-term

Legg Mason Today

- A Diversified Global Asset Management Firm
- Serving Individual and Institutional Investors for Over a Century
- Approximately 3,100 Employees with 30 Offices Around the World
- Headquartered in Baltimore, Maryland
- Ticker: LM (NYSE)

As of December 31, 2011:

- Revenue TTM: \$2.7B
- Shares Outstanding: 139.8M
- Institutional Holdings: 89%
- AUM²: \$627B
- Equity: \$5.6B
- Market Cap¹: \$3.6B
- Stock Price¹: \$26.17

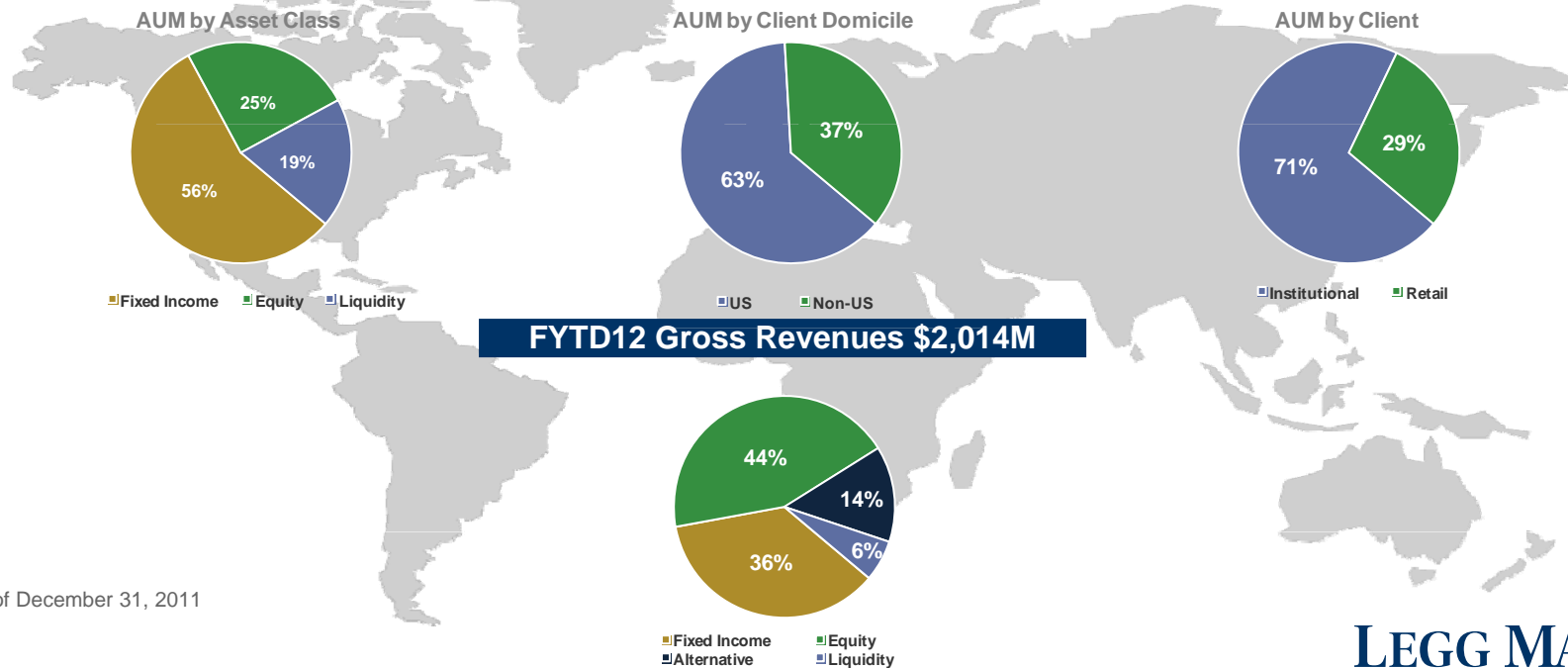
Strategy to Deliver Value

Outstanding independent investment managers

A corporate center that delivers strategic value

A balanced portfolio across asset classes, geographies and channels

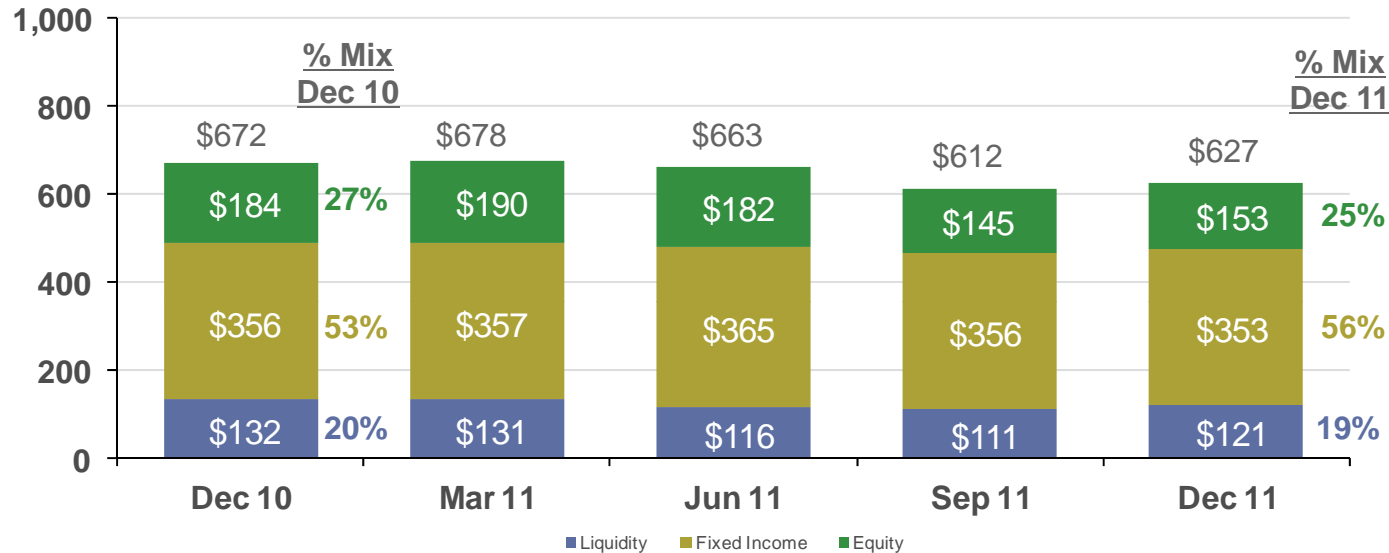
Total AUM \$627B



Data as of December 31, 2011

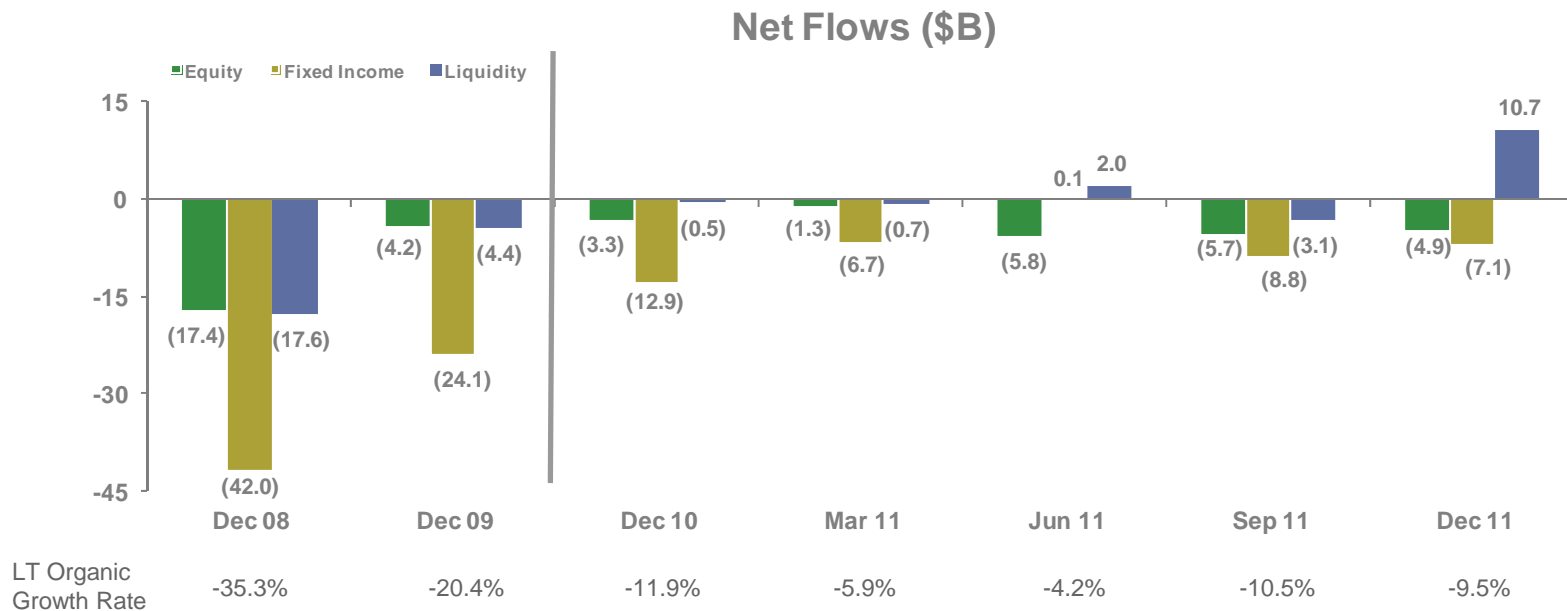
Assets Under Management by Asset Class

(\$ billions)



- Market appreciation \$17.6B, including FX impact of \$0.3B in FQ3
 - Equity and Fixed Income AUM market appreciation \$13.3B and \$4.2B, respectively
- Average AUM of \$622B down \$21B or 3% compared to FQ2

Net Flows



- Long term outflows improved from prior quarter
- Fixed income outflows improved from September quarter and were significantly better than the three prior December quarters

Assets Under Management (\$ billions)

AUM by Affiliate ¹	Dec 11 AUM	Sep 11 AUM	Dec 10 AUM	% Change vs.	
				Sep 11	Dec 10
Western Asset	\$ 442.0	\$ 433.4	\$ 453.6	2 %	(3) %
Royce & Associates	35.9	33.3	39.5	8 %	(9) %
Permal Group	17.8	18.7	19.6	(5) %	(9) %
ClearBridge	51.4	47.4	55.7	8 %	(8) %
Batterymarch	17.6	16.8	23.3	4 %	(25) %
Brandywine	33.1	31.2	32.0	6 %	4 %
LM Capital Mgmt	8.4	8.7	15.8	(3) %	(47) %

¹ Primary affiliates ordered by contribution to fiscal year to date 2012 pre-tax earnings

Strength of Business

Managers by Worldwide Assets¹

BlackRock	\$3,561
State Street Global	2,010
Fidelity Investments	1,812
Vanguard Group	1,765
JPMorgan Asset Mgmt	1,298
PIMCO	1,242
BNY Mellon Asset Mgmt	1,172
Capital Research	1,091
Amundi	921
Goldman Sachs	840
Prudential	784
Deutsche Asset Mgmt	730
AXA Investment	692
BNP Paribas Investment	685
Legg Mason	672

Worldwide Institutional Managers¹

BlackRock	\$2,556
State Street Global	1,744
BNY Mellon Asset Mgmt	1,042
Vanguard Group	1,017
Fidelity Investments	1,014
PIMCO	1,005
JPMorgan Asset Mgmt	738
Amundi	679
Wellington Mgmt	633
AXA Investment	628
Prudential	564
Legg Mason	562
Northern Trust	489
BNP Paribas Investment	425
Legal & General Investment	423

Small Cap Managers^{2,3}

Fidelity	\$49.0
Vanguard	41.2
Royce & Associates	29.9
DFA	28.4
Columbia	26.7
T Rowe Price	22.1
Neuberger Berman	11.4
Baron Cap Mgmt	9.5
Wells Fargo	7.5
Invesco	7.2

Hedge Fund of Funds⁴

Blackstone	\$37.2
UBS	30.8
HSBC	29.8
Grosvenor	24.4
Goldman Sachs	23.6
Permal	23.1
BlackRock	18.4
Morgan Stanley	18.0
Lyxor	16.4
Pacific Alternative Asset	16.3

Fixed Income Managers⁵

BlackRock	\$1,292
Allianz/PIMCO	1,111
Prudential	423
Vanguard	422
State Street	404
Legg Mason	367
Goldman Sachs	340
JP Morgan	290
Wellington	279
Franklin Templeton	268

Active Domestic Fixed Income^{1,6}

PIMCO	\$300.5
Legg Mason	159.2
BlackRock	156.9
TIAA-CREF	125.0
Prudential Financial	120.1
Loomis, Sayles	95.6
JP Morgan	85.1
Principal Global Investors	68.0
Fidelity	62.3
Wellington	62.0

Sovereign Wealth Fund Assets¹

State Street	\$322.4
BlackRock	70.6
Northern Trust	50.6
Legg Mason	41.0
JP Morgan	37.0
Goldman Sachs	33.0
PIMCO	30.6
T Rowe Price	21.6
Morgan Stanley	13.6
HSBC Global Asset	13.3

Closed-End Fund Managers²

Nuveen Investments	\$46.0
BlackRock	37.2
Eaton Vance	22.1
PIMCO/Allianz Gbl	12.9
Legg Mason	12.2
Invesco	12.0
Calamos	7.6
Cohen & Steers	6.8
Virtus Invest Ptnrs	6.2
Gabelli	5.7

Note: \$ in Billions

1 Pension & Investments, December 31, 2010

2 Strategic Insight, December 2011

3 Data includes Domestic Open-End Small Cap Mutual Funds

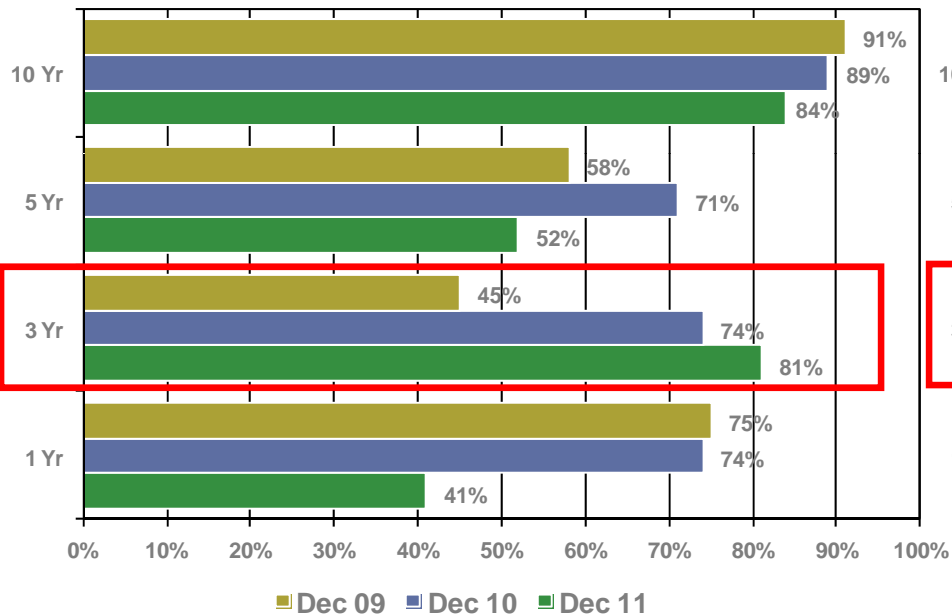
4 InvestHedge, June 2011

5 Institutional Investor US Money Managers Ranking, December 31, 2010

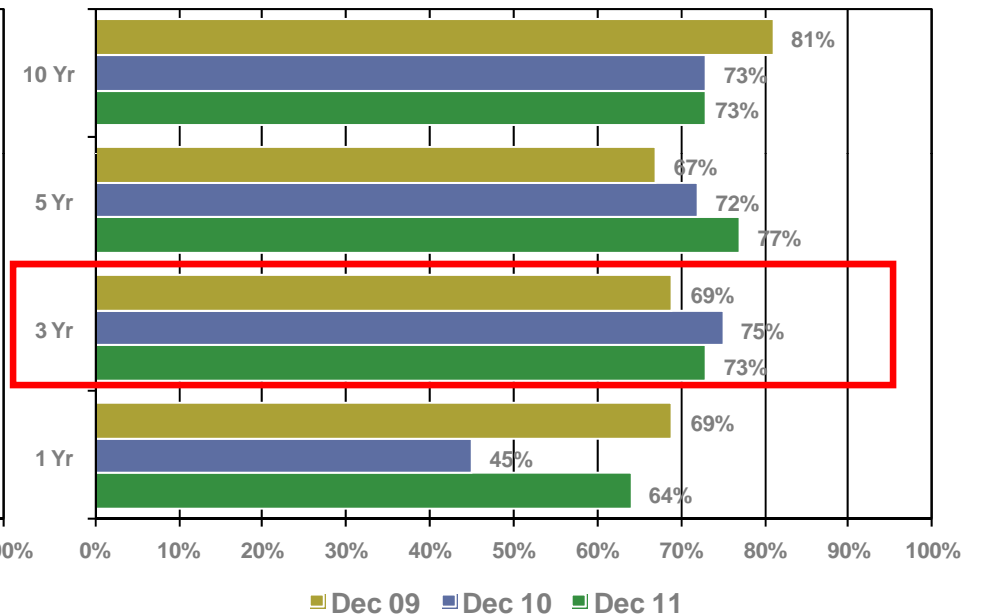
6 Data includes US Institutional, tax-exempt assets

Investment Performance

Marketed Composite Performance¹
% of AUM beating Benchmark



% of Long-Term U.S. Fund Assets
beating Lipper Category Average²



¹ Represents 90% of total AUM as of December 31, 2011. Includes liquidity.

² As of December 31, 2011, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc. and Morningstar
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.

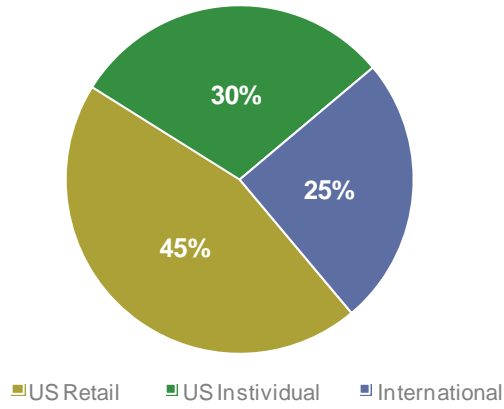
Global Distribution – Overview

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

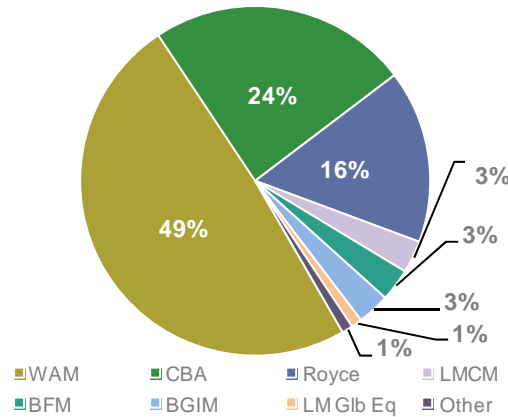
Total AUM: \$213 Billion

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

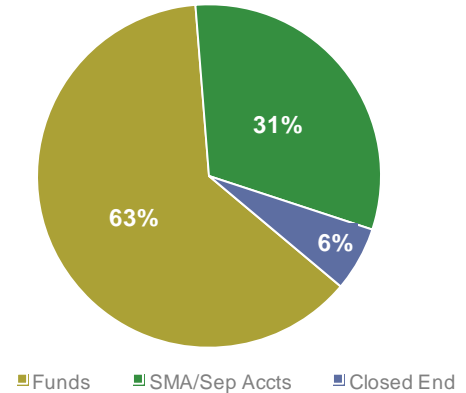
AUM by Channel



AUM by Affiliate

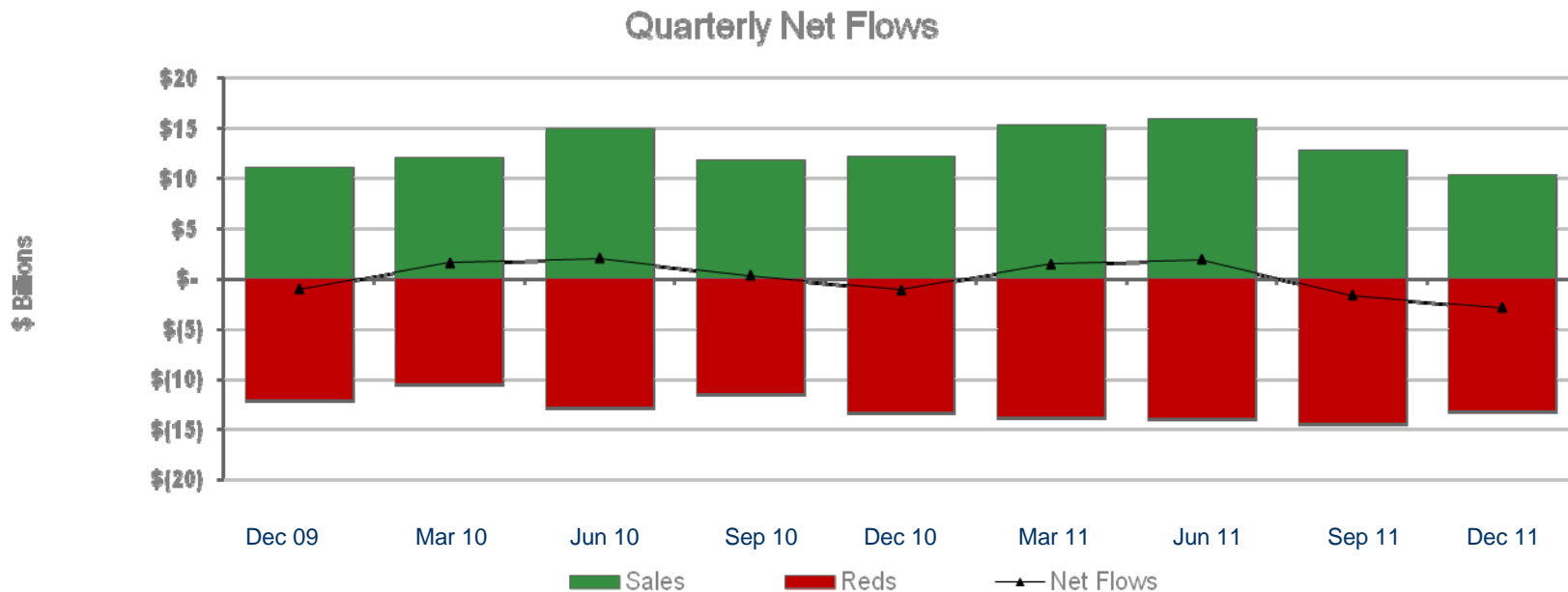


AUM by Product



Data as of December 31, 2011

Global Distribution Long-Term Flow Trends

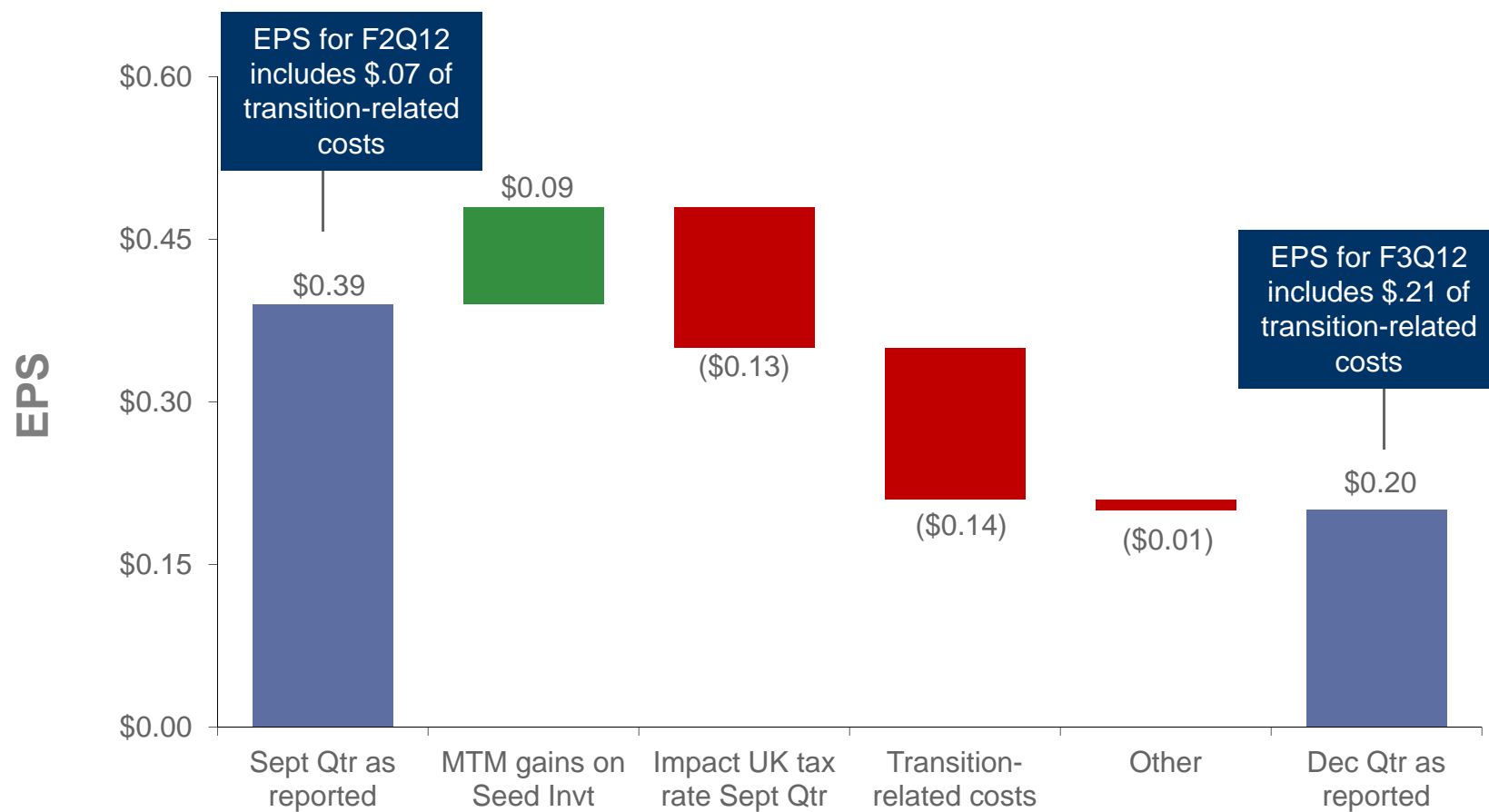


- Positive net flows in five of the last eight quarters
 - International has had twelve straight quarters of positive net flows
- Current quarter reduction in net flows driven by decline in sales of sector specific fixed income mandates in Japan

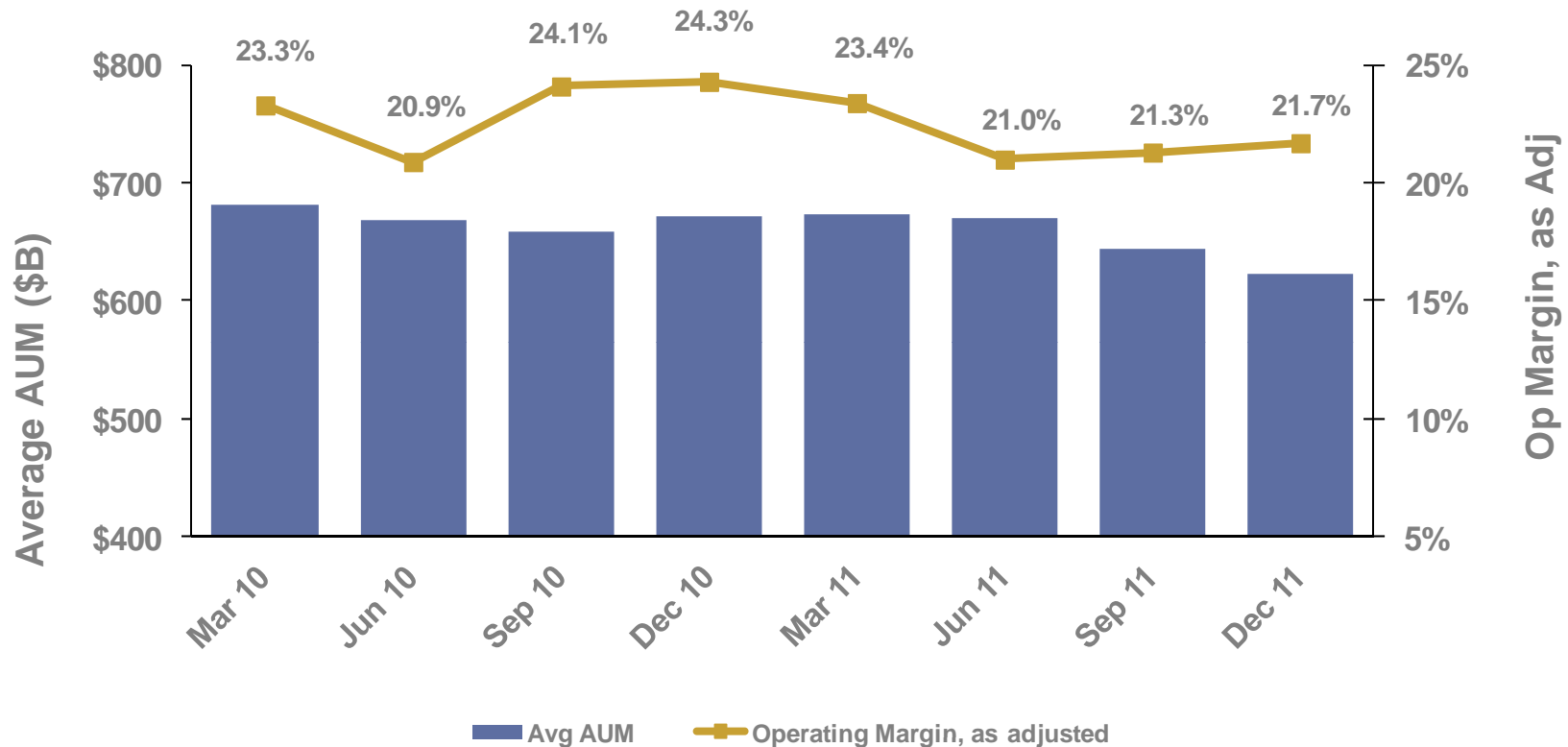
Financial Highlights Third Quarter FY 2012

- Net Income \$28.1M, \$0.20 per diluted share
- Average AUM of \$622B, down \$21B from September quarter
- Operating revenues \$627M, down \$43M or 6% from prior quarter
 - Decrease primarily reflects impact of lower average equity AUM
- Operating expenses of \$568M increased \$5M or 1% from prior quarter
 - Increase primarily driven by:
 - Higher occupancy costs related to fixed asset write-offs due to streamlining
 - MTM of deferred compensation and benefits and seed investments up \$16M, which are offset in other non-operating income
 - Partially offset by:
 - Lower distribution and servicing, and compensation and benefits expense, due to lower revenues
- Operating income \$59M, operating margin 9.5%
- Adjusted income¹ \$77M or \$0.55 per diluted share
- Operating income, as adjusted¹ \$104M
- Operating margin, as adjusted¹, 21.7%

Third Quarter Earnings Per Share



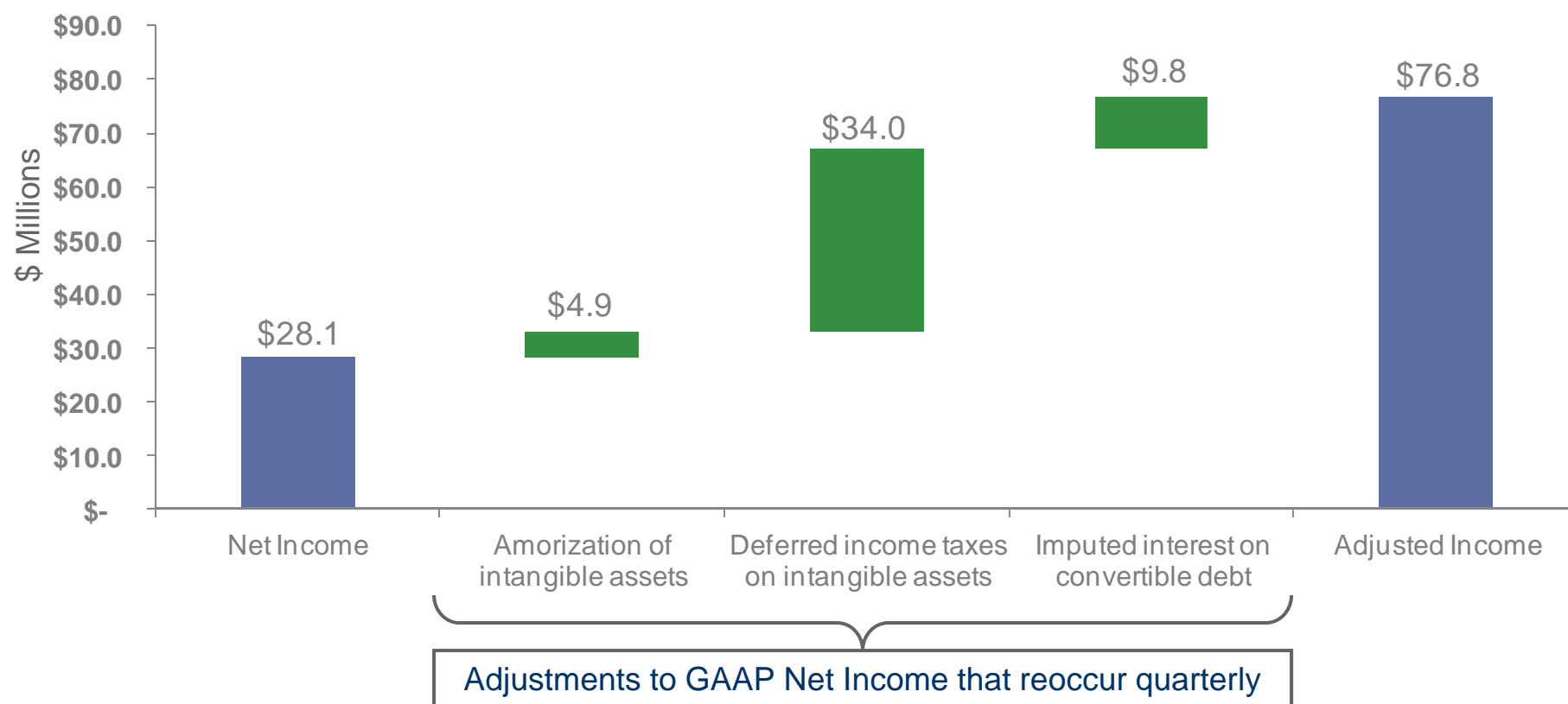
Operating Margin, as Adjusted



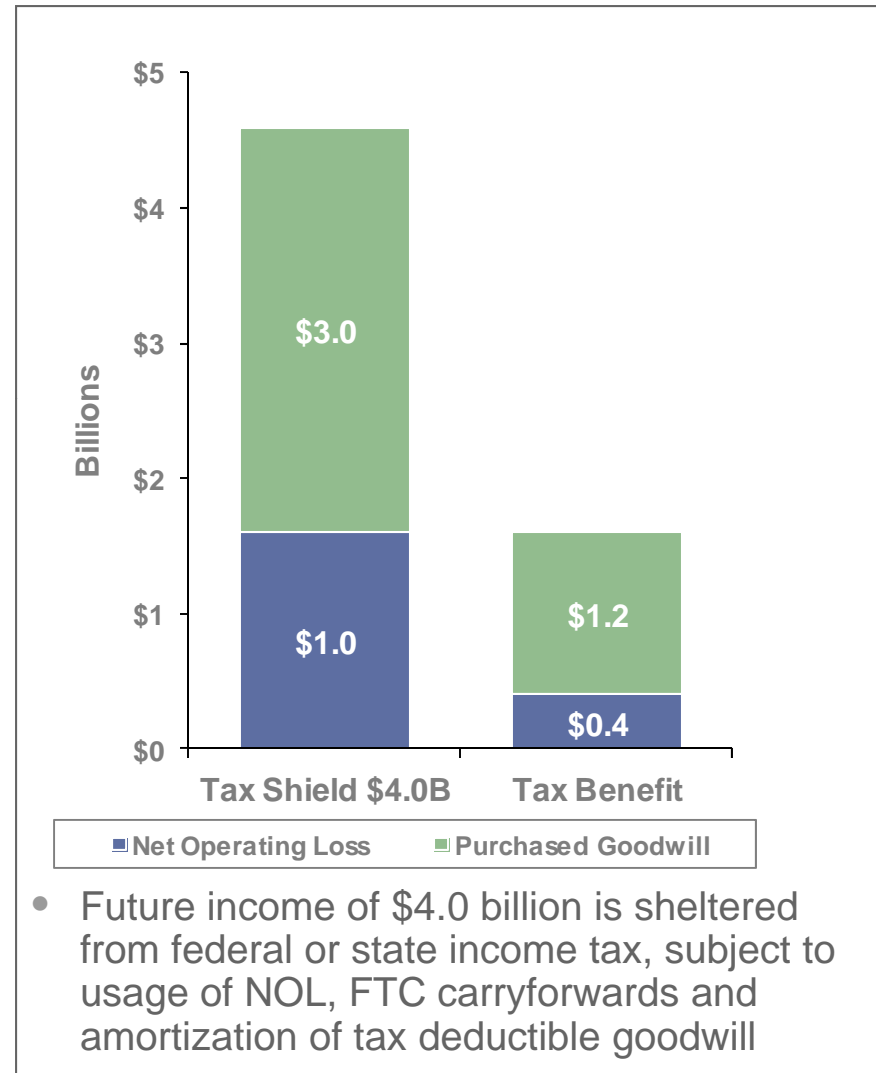
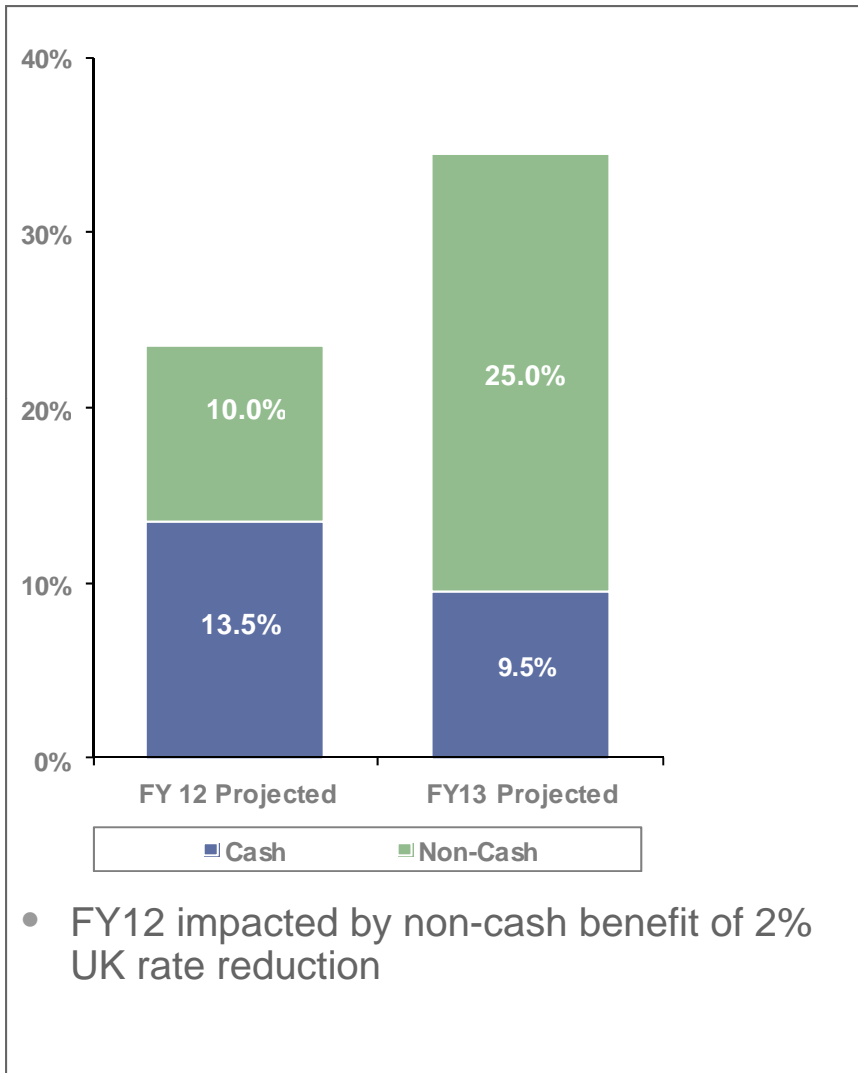
- Operating margin, as adjusted, up slightly over prior quarter due to lower corporate operating costs partially offset by impact of lower revenues

Net Income vs Adjusted Income¹ – QE Dec-11

Adjusted Income, which includes mark-to-market volatility, is an important valuation metric



Tax Provision Analysis



Data for Quarter End December 2011

Balance Sheet and Credit Ratings

(\$ millions)	Dec 11	Sep 11	Dec 10
Cash & Cash Equivalents ¹	\$ 1,244	\$ 1,104	\$ 1,278
Intangibles and Goodwill	5,140	5,148	5,197
Other Assets ²	1,624	1,624	1,686
Consolidated Funds Assets ²	363	383	408
Total Assets	\$ 8,371	\$ 8,259	\$ 8,569
Debt ³	\$ 1,377	\$ 1,368	\$ 1,443
Other Liabilities	1,089	1,008	1,015
Stockholders Equity	5,542	5,500	5,703
Consolidated Funds Liability/Equity ⁴	363	383	408
Total Liabilities & Equity	\$ 8,371	\$ 8,259	\$ 8,569

Current Credit Ratings		
Agency	Rating	Outlook
Moody's	Baa1	Negative
S&P	BBB	Stable

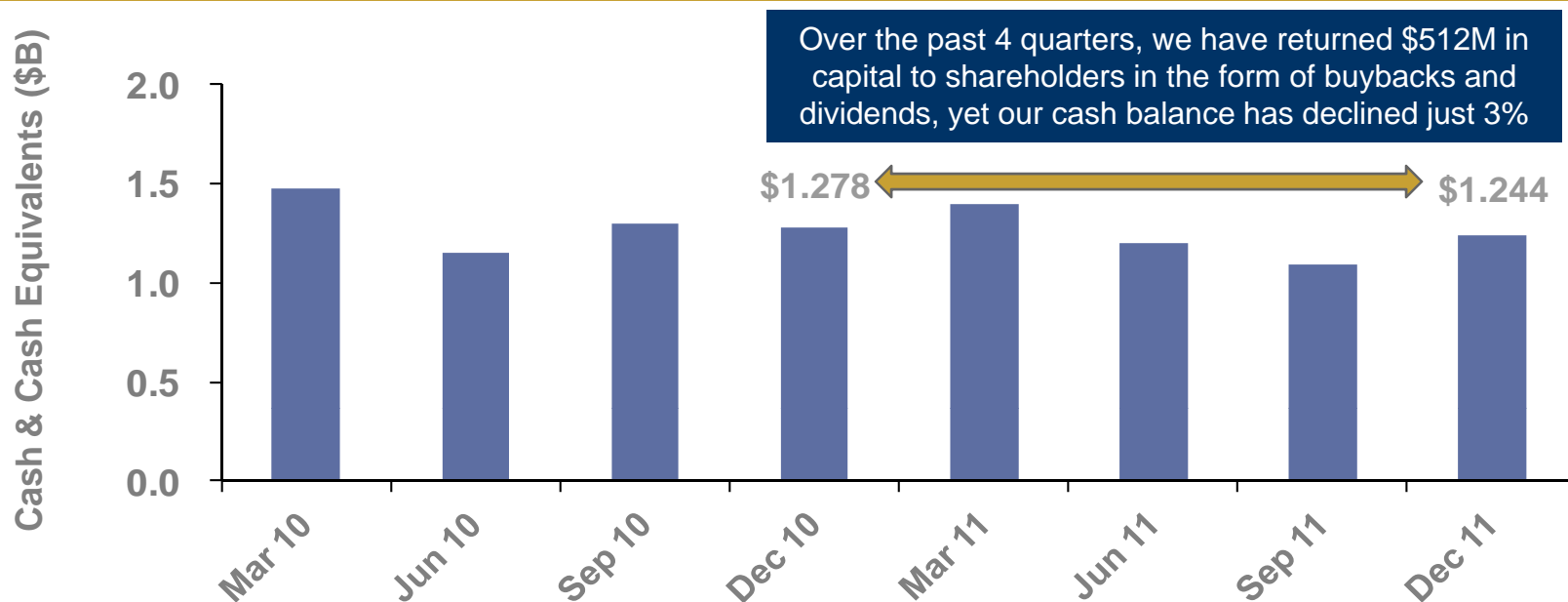
(1) Includes Restricted Cash

(2) Includes Seed Investments of \$394M in Dec'11, \$421M in Sep'11 and \$376M in Dec'10

(3) Debt accounted for at carrying value

(4) Includes Redeemable Noncontrolling Interests

Cash Balance and Share Repurchase History



Shares Repurchased	Transaction
14.6M	\$445M in share repurchases - FY 2011
13.6M	\$400M in share repurchase - FYTD 2012
28.2M	Total shares repurchased represent \$845M of \$1B Board authorization

Update on Streamlining our Business Model

- Costs and savings related to streamlining initiatives complete
- Cost savings
 - Third quarter cost savings total \$26M
 - FQ4 savings of \$35M or \$140M per annum
- Transition-related costs
 - Transition-related expenses of \$42M in FQ3
 - Transition-related expenses to date of \$126M
 - Expect \$3M of additional transition-related expenses in FQ4

Positioned for Long Term Earnings Growth

- Continued improvement of the critical 3 year investment performance amid market volatility
- Strong financial position
- Effectively managing costs
- Utilizing balance sheet to increase shareholder value

Positioned for Long-Term Earnings Growth Improved Investment Performance Amid Market Volatility

History tells us that flows follow performance, so we understand how critical it is to maintain this trend line

3 Year Composite Outperformance¹

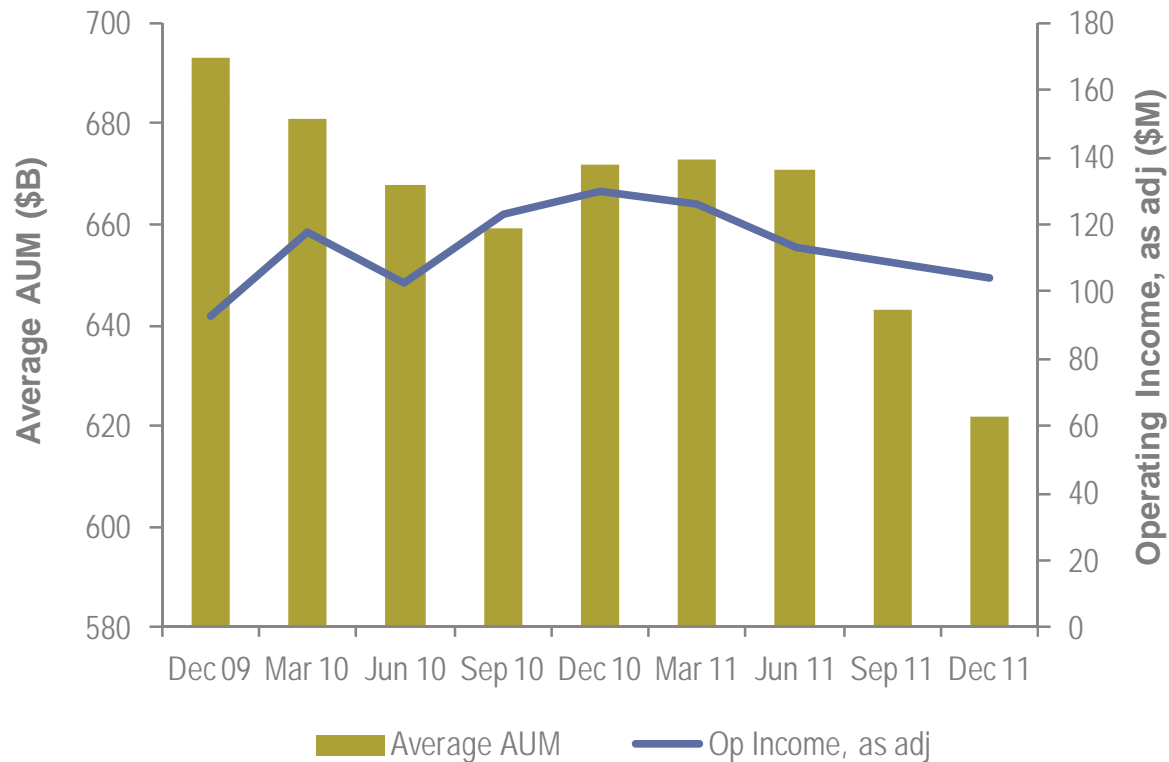


Positioned for Long-Term Earnings Growth

Strong Financial Position

Despite market turmoil, Operating Income, as adjusted has been consistent, which reflects the benefits of the affiliate model

Operating Income, as adjusted¹

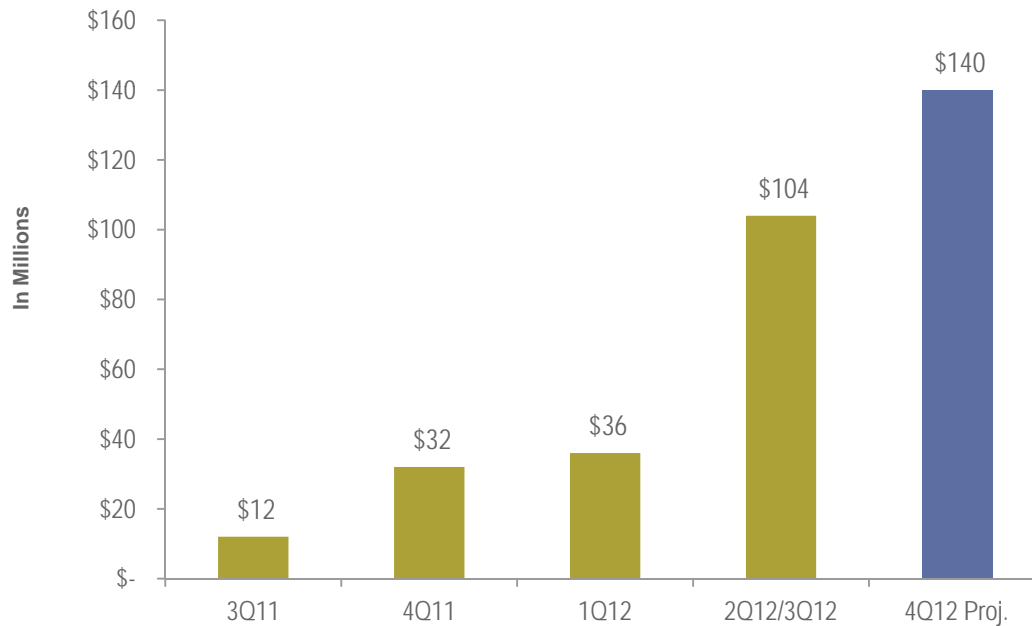


Positioned for Long-Term Earnings Growth

Effectively Managing Costs

Streamlining initiatives are complete and will contribute to significant earnings leverage going forward

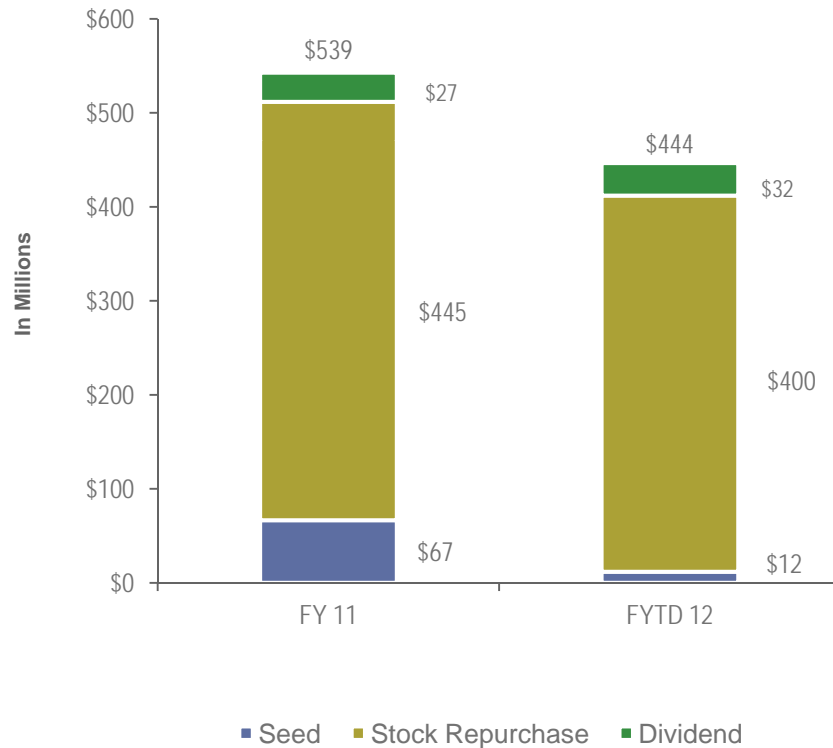
Annualized Cost Savings



Positioned for Long-Term Earnings Growth Utilizing Balance Sheet to Increase Shareholder Value

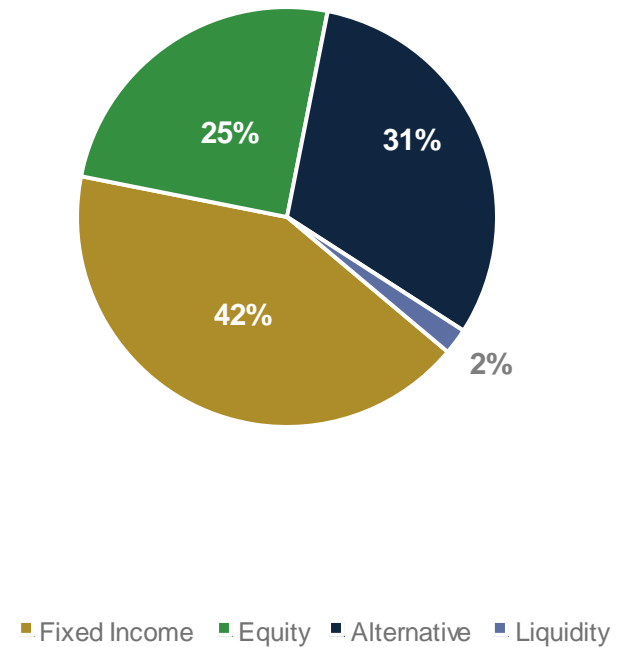
Over the last seven quarters, \$875M has been returned to shareholders in dividends and buybacks, while an additional \$80M has been used to seed investments

Capital Allocation



Seed Capital by Asset Class

\$394M as of 12/31/11



Closing Comments

- Highly diversified asset manager by AUM, revenues, geography, client, distribution, and brand
- Scale player with \$627B in AUM as of December 2011
- Global presence through a portfolio of world-class affiliates
- Powerful, diversified distribution model
- Strong long-term investment performance
- Strong earnings
- Significant liquidity and financial flexibility
- Clear progress on capital deployment and business initiatives

Appendix

Appendix - GAAP Reconciliation

Consolidated Statements of Income excluding Investment Vehicles¹

(\$ millions)	Quarter Ended December 31, 2011			Quarter Ended September 30, 2011			Quarter Ended December 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
Operating Revenues:									
Investment advisory fees	\$ 545.2	\$ 0.8	\$ 546.0	\$ 582.8	\$ 0.6	\$ 583.5	\$ 625.1	\$ 1.2	\$ 626.3
Distribution and service fees	80.7	-	80.7	85.8	-	85.8	95.5	-	95.5
Other	1.0	-	1.0	1.3	-	1.3	1.3	-	1.3
Total operating revenues	627.0	0.8	627.7	669.9	0.6	670.5	721.9	1.2	723.1
Operating Expenses:									
Compensation and benefits	263.2	-	263.2	270.0	-	270.0	309.2	-	309.2
Distribution and servicing	148.3	(0.0)	148.3	160.4	(0.0)	160.4	187.4	(0.0)	187.4
Other	156.2	(0.1)	156.1	132.7	(0.2)	132.4	128.3	0.5	128.9
Total operating expenses	567.7	(0.1)	567.6	563.0	(0.3)	562.8	624.9	0.5	625.5
Operating Income	59.3	0.9	60.2	106.9	0.9	107.7	97.0	0.6	97.6
Other Non-Operating Income (Expense)									
Net interest income (expense)	(19.3)	-	(19.3)	(18.7)	-	(18.7)	(20.2)	-	(20.2)
Other income (expense)	7.7	(7.8)	(0.1)	(32.4)	(1.5)	(33.9)	10.3	7.7	18.0
Other non-operating income (expense)	(11.6)	(7.8)	(19.4)	(51.1)	(1.5)	(52.6)	(9.8)	7.7	(2.2)
Income Before Income Tax Provision	47.7	(6.9)	40.8	55.8	(0.6)	55.1	87.2	8.3	95.5
Income tax (benefit) provision	12.6	-	12.6	(1.6)	-	(1.6)	33.8	-	33.8
Net Income	35.1	(6.9)	28.2	57.4	(0.6)	56.7	53.4	8.3	61.7
Less: Net income (loss) attributable to noncontrolling interests	7.0	(6.9)	0.1	0.7	(0.6)	0.1	(8.3)	8.3	0.0
Net Income Attributable to Legg Mason, Inc.	\$ 28.1	\$ -	\$ 28.1	\$ 56.7	\$ -	\$ 56.7	\$ 61.6	\$ -	\$ 61.6
Effective Income Tax Rate	26.4%			-2.9%			38.8%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			30.9%			-2.9%			35.4%

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

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Dec 11	Sep 11	Dec 10
(\$ millions, except per share amounts)			
Net Income attributable to Legg Mason, Inc.	\$ 28.1	\$ 56.7	\$ 61.6
Plus (Less):			
Amortization of intangible assets	4.9	5.5	5.8
Deferred income taxes on intangible assets:			
Tax amortization benefit	34.0	34.0	33.7
UK tax rate adjustment	-	(18.3)	-
Imputed interest on convertible debt	9.8	9.7	9.2
Adjusted Income	<u>\$ 76.8</u>	<u>\$ 87.6</u>	<u>\$ 110.3</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.20	\$ 0.39	\$ 0.41
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.24	0.24	0.22
UK tax rate adjustment	-	(0.13)	-
Imputed interest on convertible debt	0.07	0.07	0.06
Adjusted Income per Diluted Share	<u>\$ 0.55</u>	<u>\$ 0.61</u>	<u>\$ 0.73</u>

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

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11
Operating Revenues, GAAP basis	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.9	0.5	0.8	1.0	1.2	1.2	1.1	0.6	0.8
Distribution and servicing expense excluding consolidated investment vehicles	<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>(180.7)</u>	<u>(160.4)</u>	<u>(148.3)</u>
Operating Revenues, as adjusted	<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>\$ 537.4</u>	<u>\$ 510.1</u>	<u>\$ 479.5</u>
Operating Income, GAAP basis	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	12.6	11.2	(4.6)	22.1	8.6	10.2	(2.4)	(14.2)	1.7
Transition-related costs	-	-	3.2	11.6	24.0	15.7	13.7	15.1	42.3
Operating income and expenses of consolidated investment vehicles	<u>0.8</u>	<u>0.8</u>	<u>1.2</u>	<u>1.5</u>	<u>0.6</u>	<u>1.4</u>	<u>1.2</u>	<u>0.9</u>	<u>0.9</u>
Operating Income, as adjusted	<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>\$ 112.9</u>	<u>\$ 108.6</u>	<u>\$ 104.2</u>
Operating margin, GAAP basis	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	14.0%	16.0%	9.5%
Operating margin, as adjusted	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	21.0%	21.3%	21.7%

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