

LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason, Inc

Credit Suisse Financial
Services Forum
February 10-11, 2011

Joseph A. Sullivan
Head of Global Distribution

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.

Legg Mason Today

- A Diversified Global Asset Management Firm
- Serving Individual and Institutional Investors for Over a Century
- Approximately 3,400 Employees with 31 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 Cap¹: \$5.4B
- Stock Price¹: \$34.81

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**

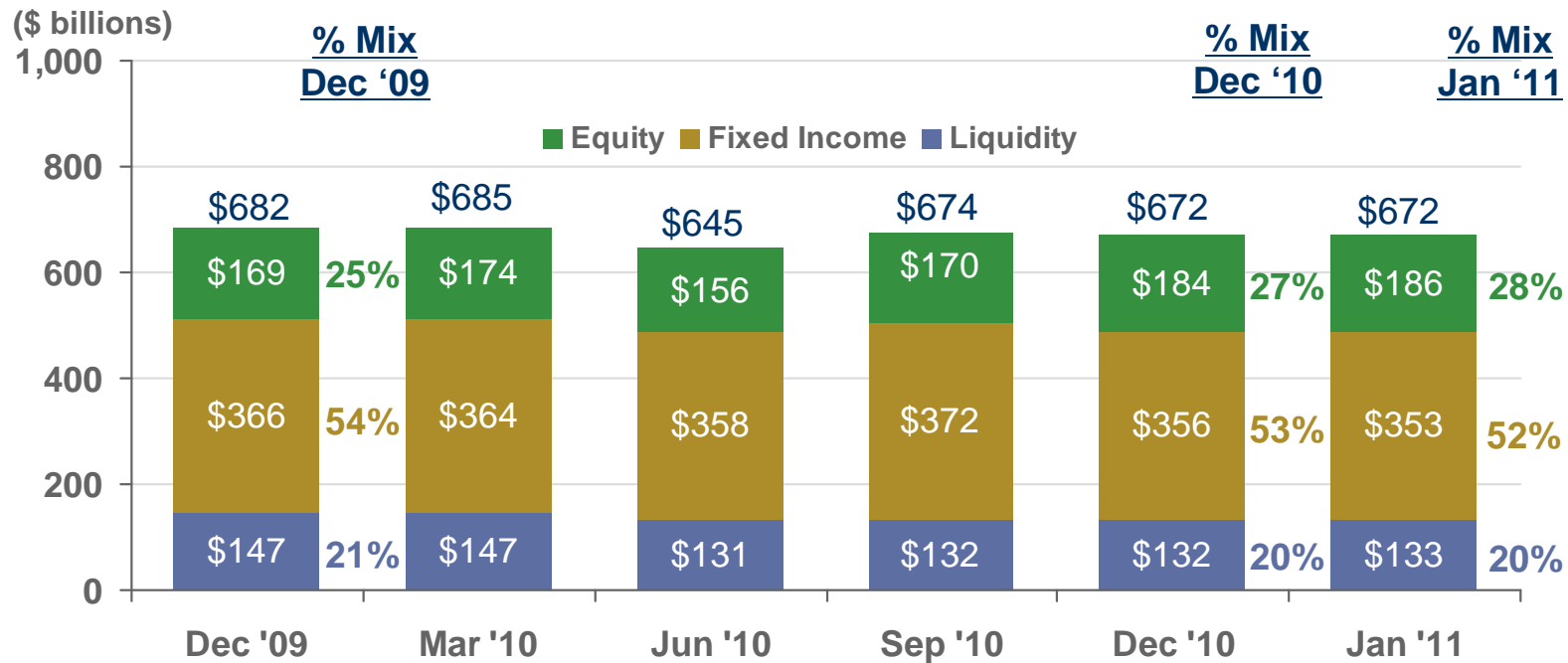
Peter H. Nachtwey

**CHIEF
FINANCIAL
OFFICER**

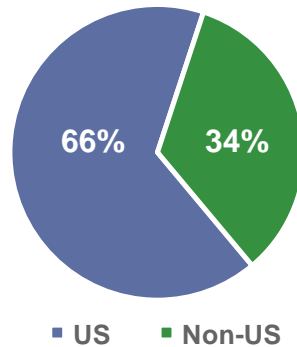
Thomas P. Lemke

**GLOBAL
GOVERNANCE**

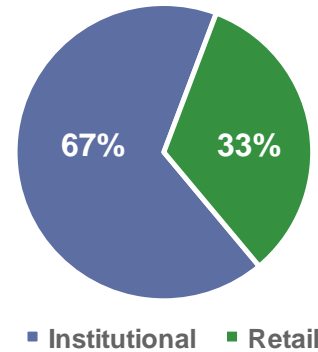
Assets Under Management



AUM by Client Domicile

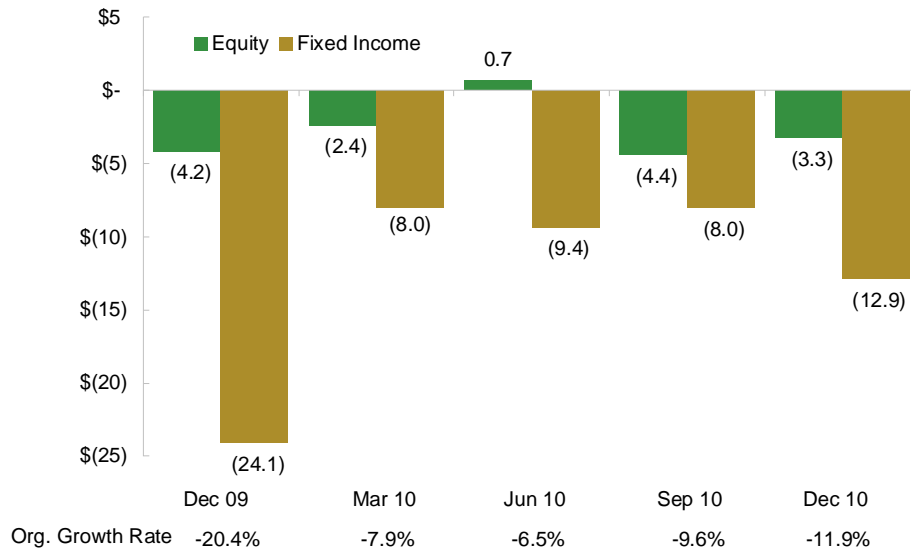


AUM by Client

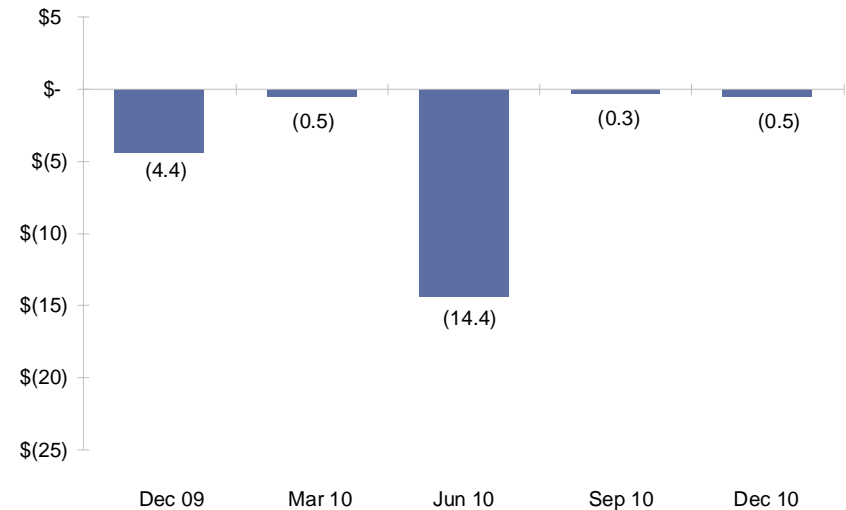


Net Flows

Long Term Net Flows (\$ billions)

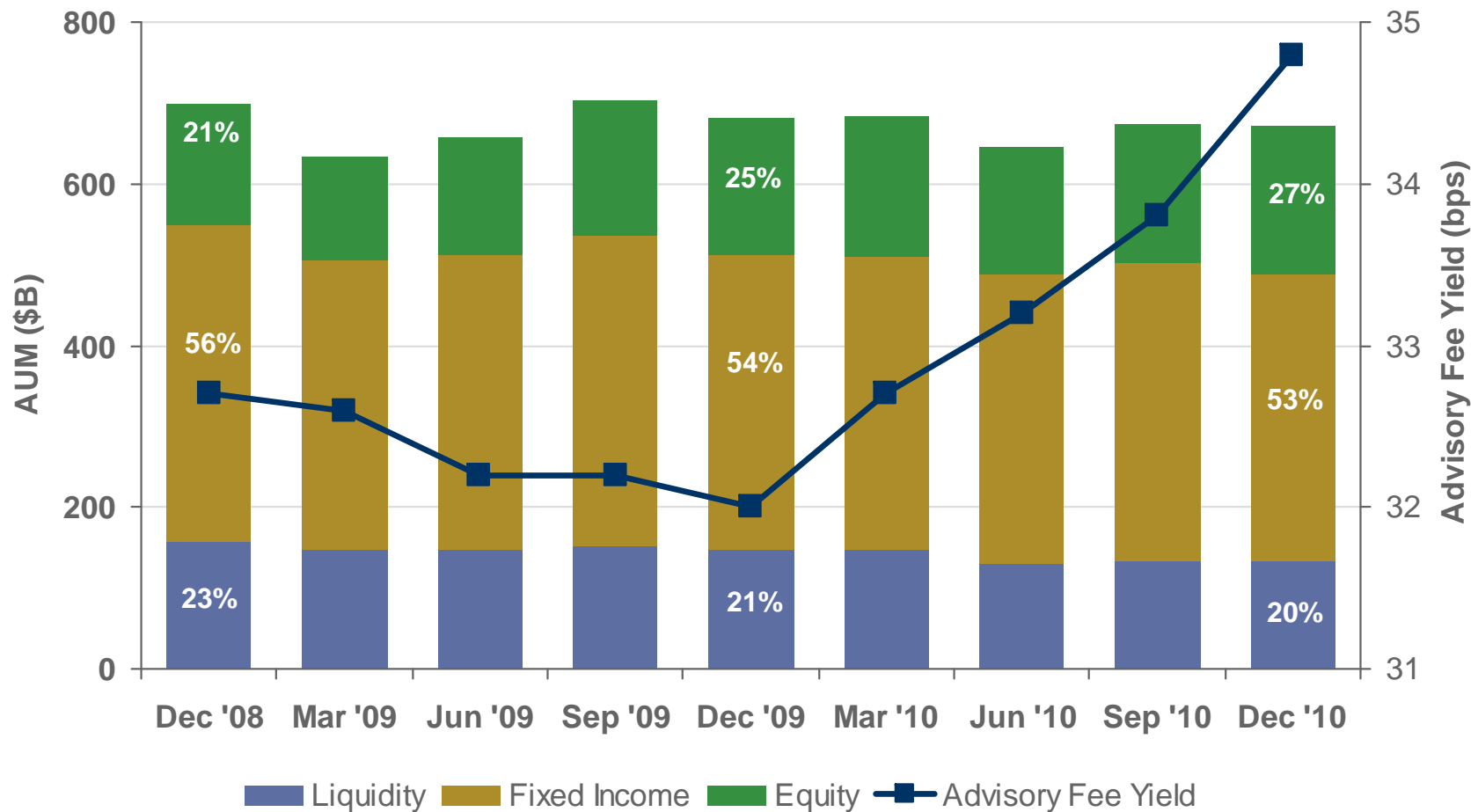


Liquidity Net Flows (\$ billions)



- 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%

Advisory Fee Yield / Assets Under Management



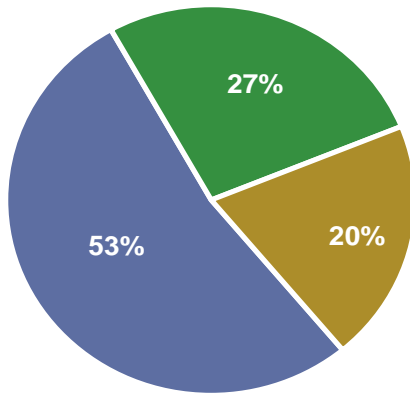
Global Distribution - Overview

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

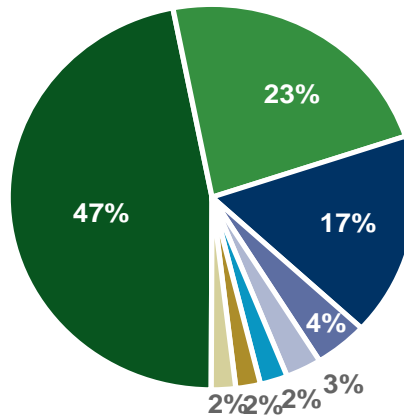
Total AUM: \$218 Billion

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

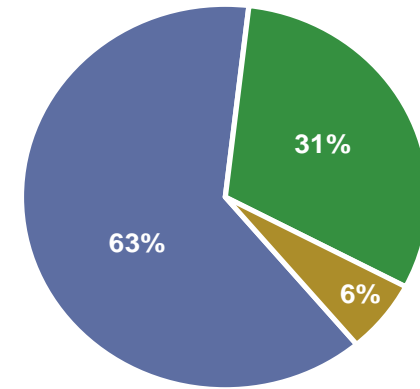
AUM by Channel



AUM by Affiliate

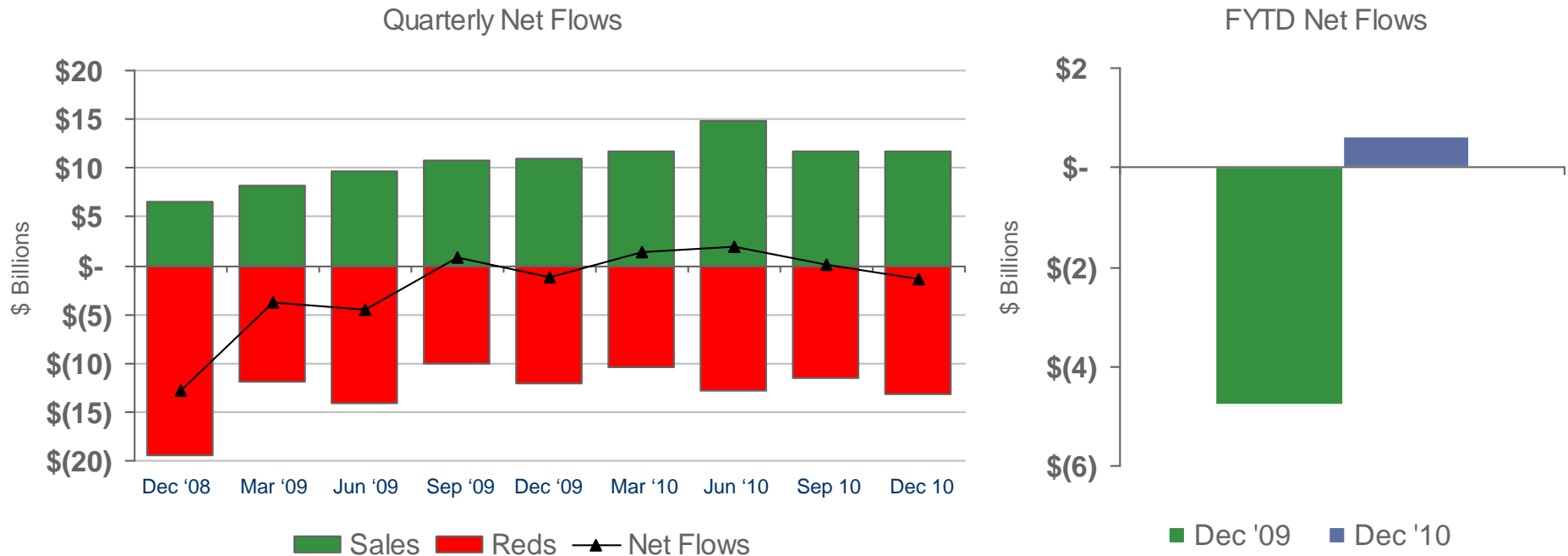


AUM by Product



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

Global Distribution Long-Term Flow Trends



- Positive net flows in four of the last six quarters
 - International has had eight straight quarters of positive net flows
- Current quarter reduction in net flows driven by \$1.4B swing in municipal fund flows versus the prior quarter, lower sales activity in Australia and Japan, and outflows in Europe related to a handful of quasi-institutional clients
- Continued trend of further diversified US retail channel sales between National Broker Dealers and Independent Advisory Dealers

Legg Mason Americas Distribution Overview

Centers of Excellence Specialized in the Unique Needs of Each Client Segment

Sales Force Roles
















Channels

% of AUM²

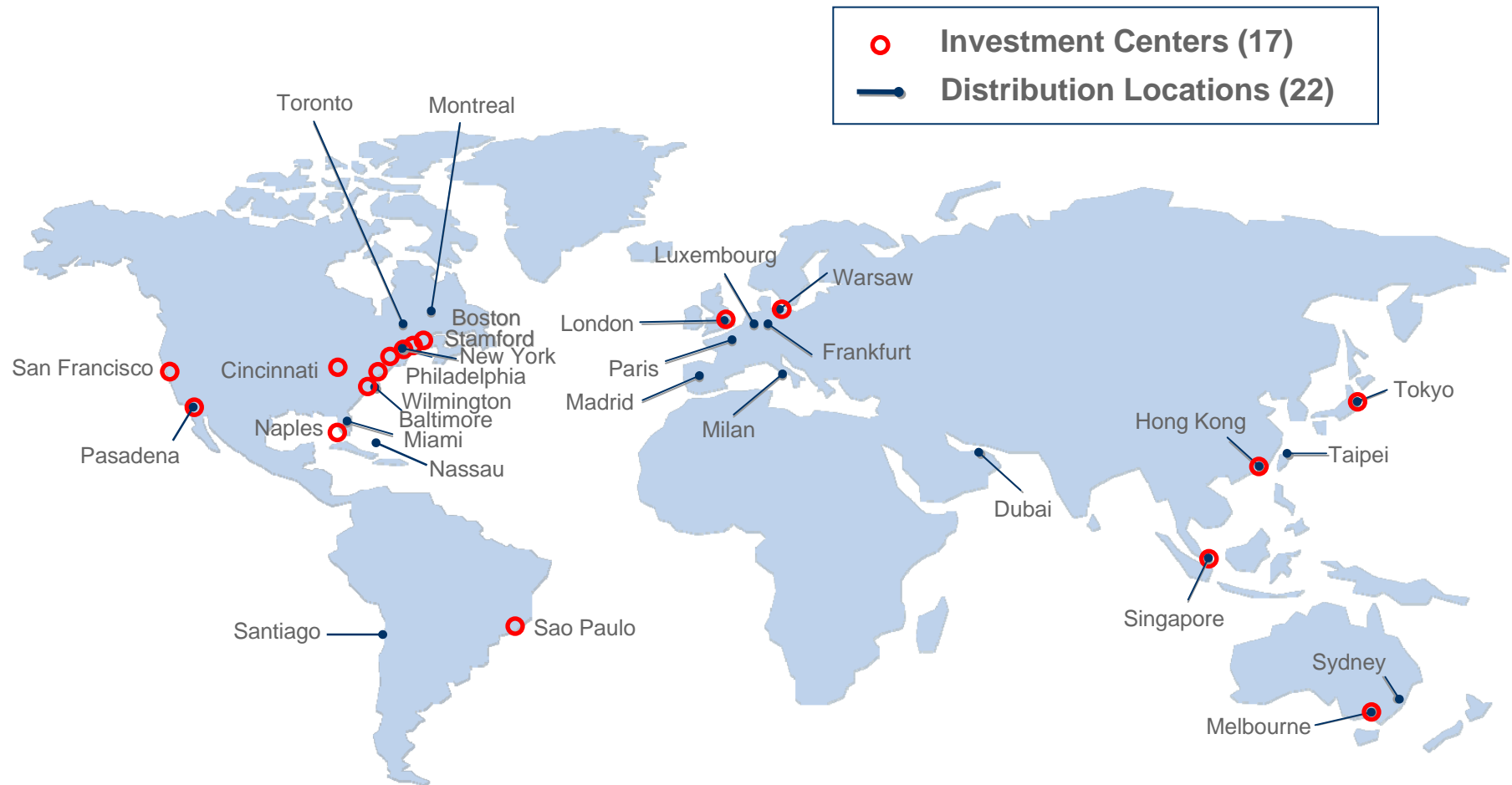
Wirehouses (NBD)	Independents (IAD)	Retirement (DCIO)	Insurance / Sub Advisory	Wealth Management (RIA ¹ and Private Bank)
48%	13%	14%	14%	11%

Legg Mason International Distribution Overview

	EUROPE	AMERICAS	ASIA
LEGG MASON INTERNATIONAL DISTRIBUTION LOCATIONS	 London  Madrid  Paris  Frankfurt  Milan	 New York & Miami  Canada  Chile	 Hong Kong  Singapore  Taiwan  Japan  Australia
COUNTRIES OF CLIENT COVERAGE	UK, France, Germany, Spain, Italy, Belgium, Switzerland, Netherlands, Sweden, Norway, Austria, Luxembourg, UAE, and Greece	Mexico, Costa Rica, Panama, Guatemala, Colombia, Venezuela, Brazil, Peru, Chile, Argentina, Uruguay, Cayman Islands, Bermuda, Puerto Rico, Canada, USA and Ecuador	Hong Kong, Singapore, Taiwan, Australia and Japan
PRODUCTS SOLD	Cross-Border Funds Local Funds (UK)	Cross-Border Funds Local Funds (Canada)	Cross-Border Funds Local Funds (Singapore, Hong Kong, Japan and Australia)

DISTRIBUTION CHANNELS	Insurance	Private Banks	Retail Assets	Asset Mangers	Fund of Funds	IFAs	Platforms
-----------------------	-----------	---------------	---------------	---------------	---------------	------	-----------

Global Presence



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 Strategy Bond 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

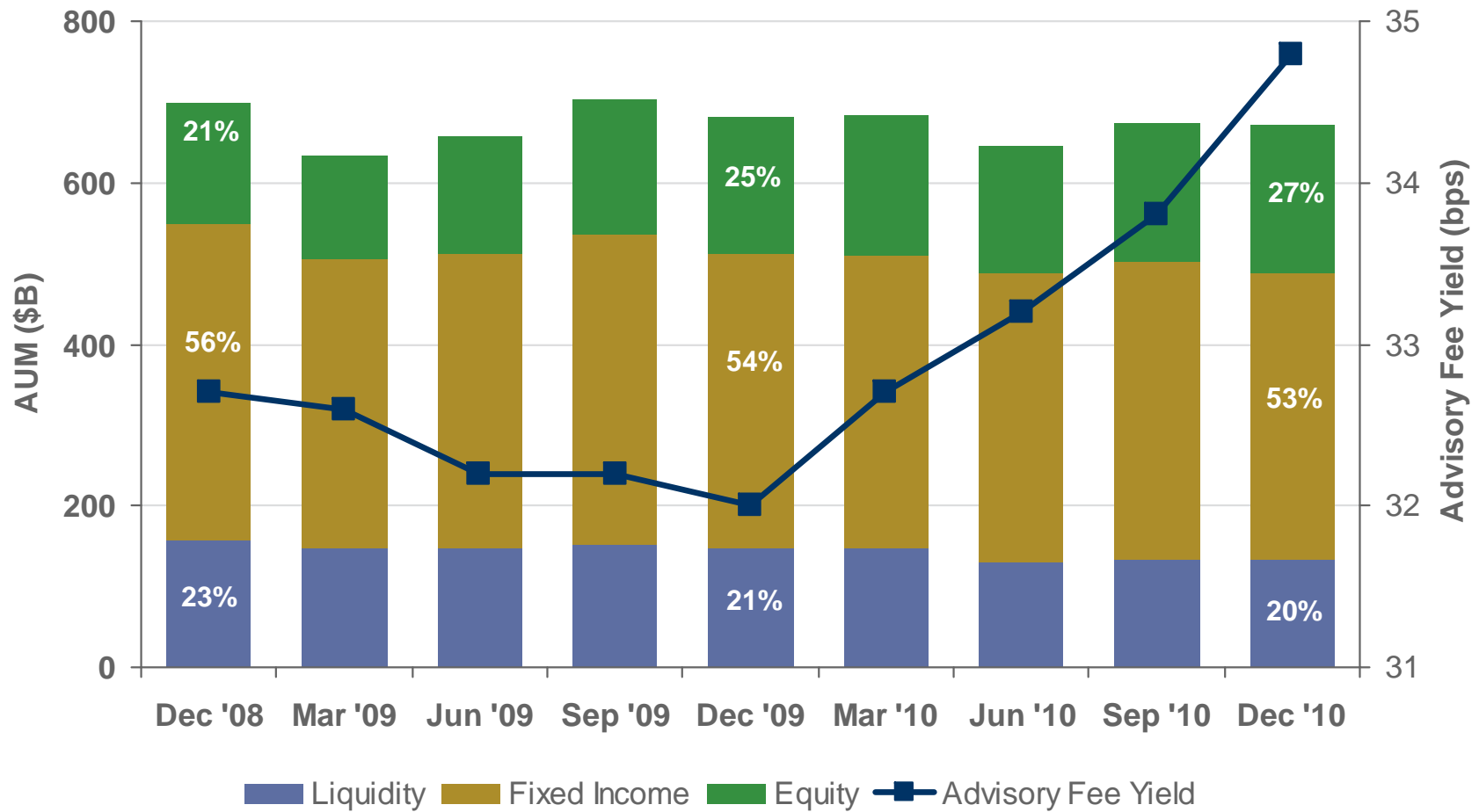
Financial Overview

- Improved earnings
 - Diluted EPS of \$0.41 (includes \$0.10 in transition costs and \$0.04 in closed-end fund costs)
 - 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

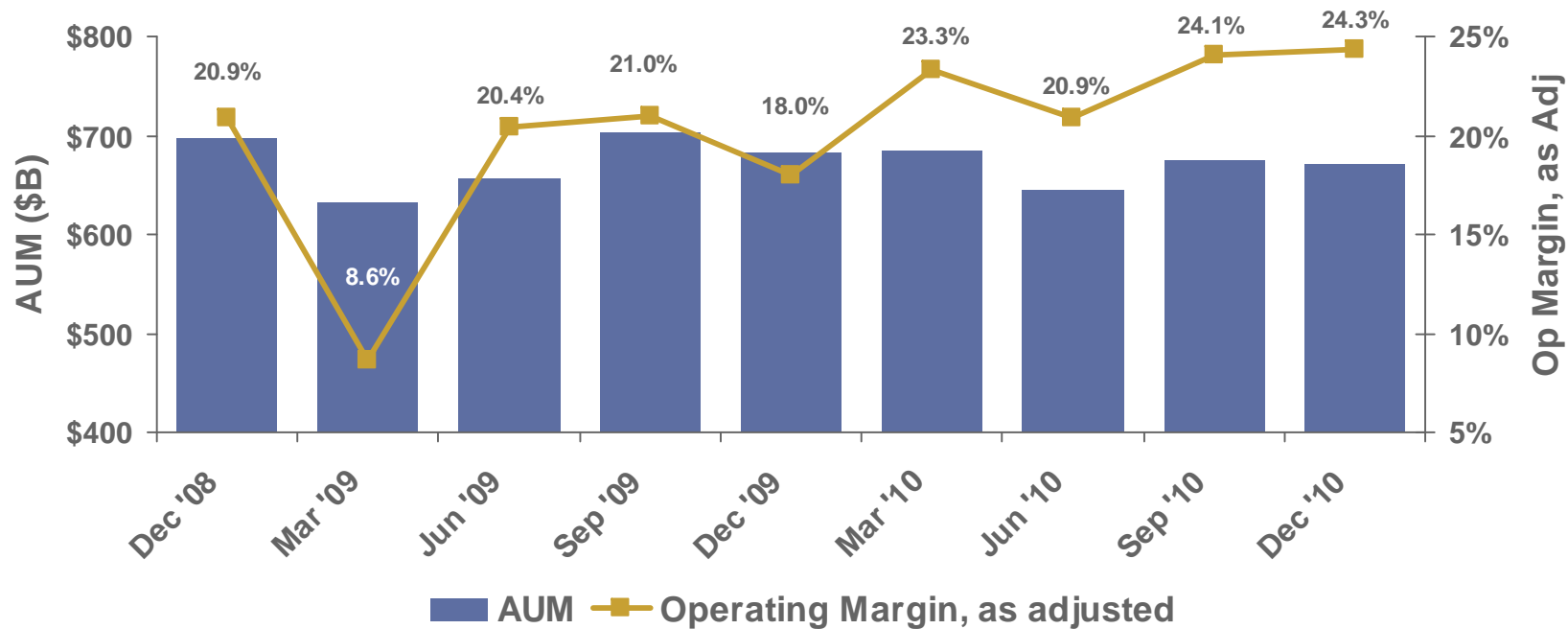
Financial Highlights Third Quarter FY 2011

- 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 income¹ \$110M or \$0.73 per diluted share
- Continued improvement in operating margin to 13.4% and operating margin, as adjusted¹ to 24.3%
- Continued share repurchase reduced average diluted shares outstanding to 151.0M for the quarter

Advisory Fee Yield / Assets Under Management



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%

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 31st 2010:

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

\$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
12.6M	Total shares repurchased under \$1B Board Authorization announced last year

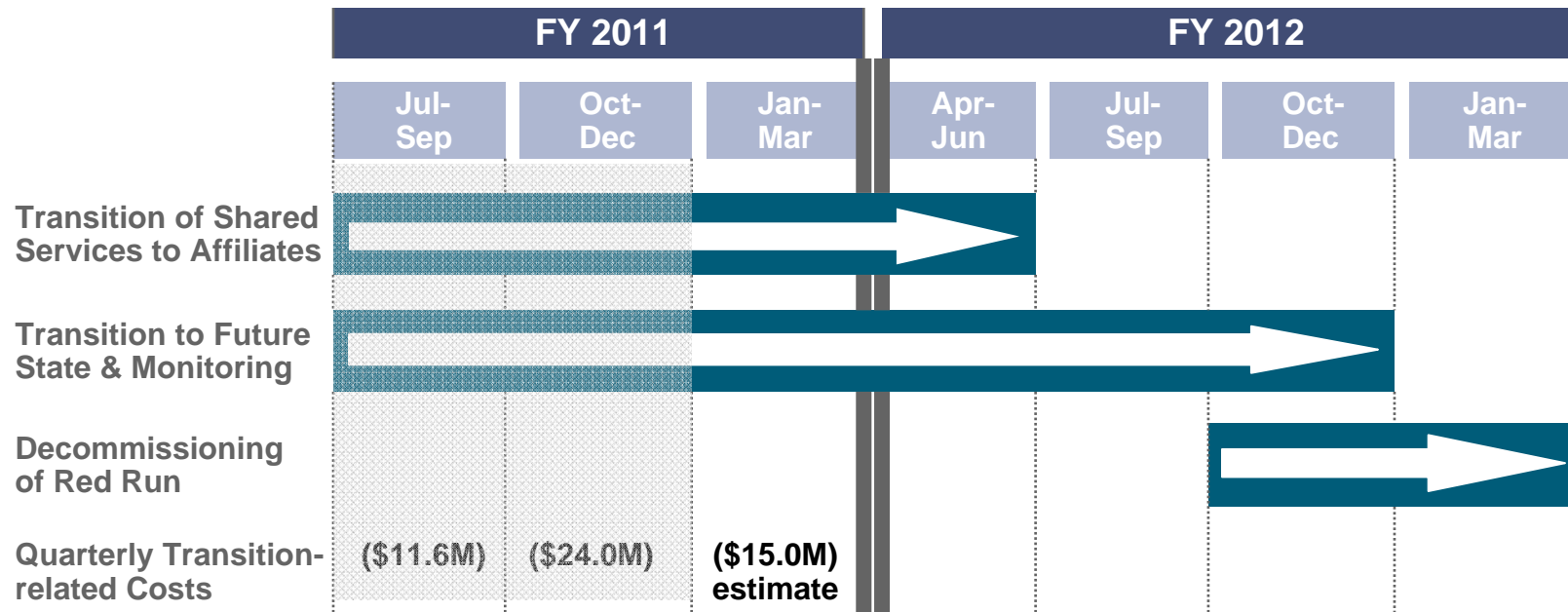
- \$624M remains of the Board authorized stock repurchase of up to \$1B
- Cash & cash equivalents remains strong at \$1.3B, allowing for flexibility in continued share repurchases
- Expect to repurchase up to an additional \$40M of shares by end of FY 2011, subject to market and company performance,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

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**

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 Vehicles¹

	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)									
Operating Revenues:									
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
Operating Expenses:									
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
Operating Income	97.0	0.6	97.6	87.9	1.5	89.4	79.1	0.8	79.9
Other Non-Operating Income (Expense)									
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)
Income Before Income Tax Provision	87.2	8.3	95.4	103.3	(1.2)	102.1	72.2	(1.3)	71.0
Income tax provision	33.8	-	33.8	26.7	-	26.7	26.0	-	26.0
Net Income	53.4	8.3	61.6	76.6	(1.2)	75.4	46.2	(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
Net Income Attributable to Legg Mason, Inc.	\$ 61.6	\$ -	\$ 61.6	\$ 75.3	\$ -	\$ 75.3	\$ 44.9	\$ -	\$ 44.9
Effective Income Tax Rate	38.8%			25.9%			36.0%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			35.4%			26.2%			36.6%

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

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Dec 10	Sep 10	Dec 09
(\$ millions, except per share amounts)			
Net Income attributable to Legg Mason, Inc.	\$ 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
Adjusted Income	\$ 110.3	\$ 115.0	\$ 93.2
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 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
Adjusted Income per Diluted Share	\$ 0.73	\$ 0.76	\$ 0.57

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

² Net of income taxes.

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

Appendix – GAAP Reconciliation

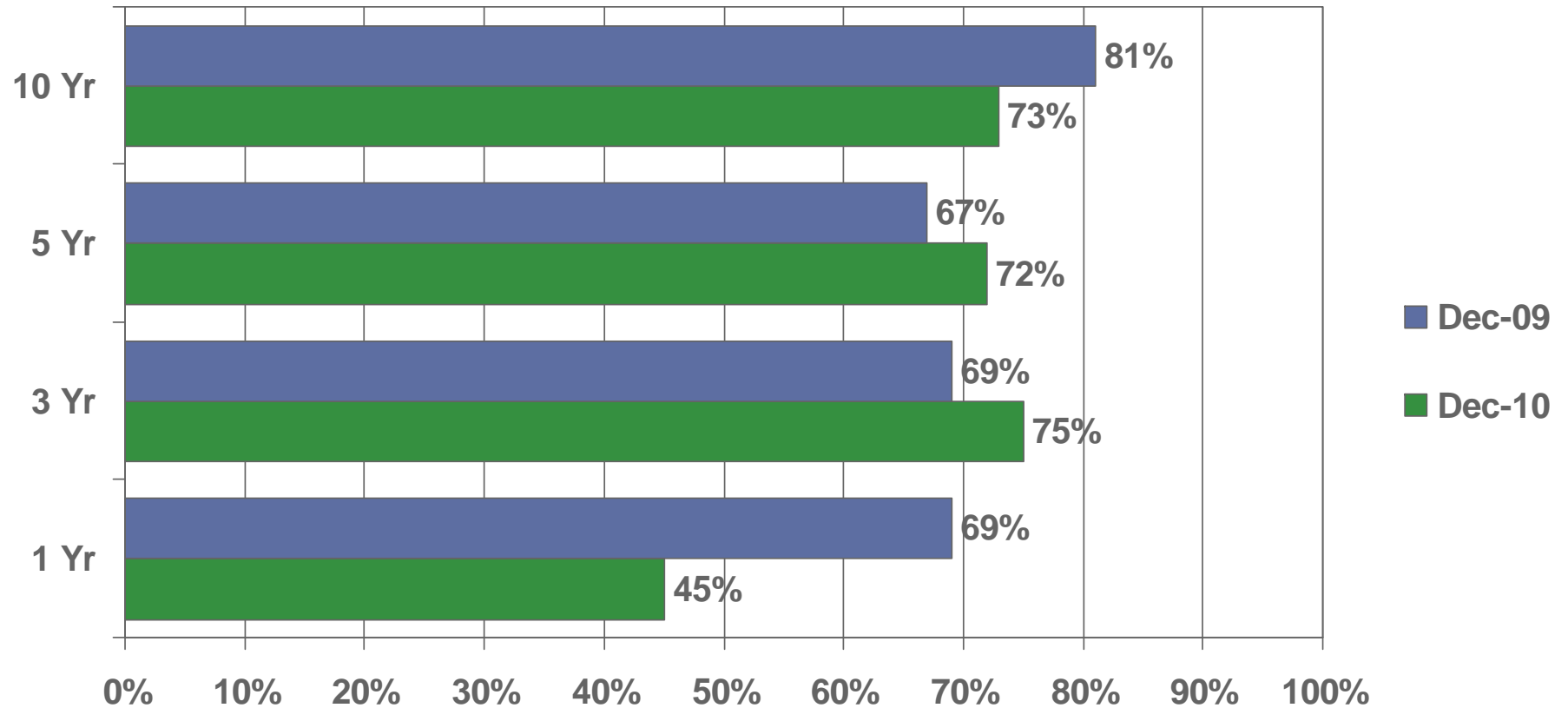
Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Operating Revenues, GAAP basis	\$ 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)
Operating Revenues, as adjusted	<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>
Operating Income (Loss)	\$ (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	-	-	-	-	-	-	-
Operating Income, as adjusted	<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%

¹ 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 Average¹



¹ 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.

Appendix - Operating Expenses

(\$ millions)

	<u>Dec '10</u>	<u>Sep '10</u>	<u>% Chg</u>	<u>Dec '09</u>	<u>% Chg</u>
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%
Total Operating Expenses	<u>\$ 624.9</u>	<u>\$ 586.9</u>	6%	<u>\$ 611.3</u>	2%

	<u>Dec 10</u>	<u>% of Net Rev. ¹</u>	<u>Sep 10</u>	<u>% of Net Rev.</u>	<u>\$ Change</u>
Salary and incentives	\$ 232.3	43%	\$ 217.3	43%	\$ 15.0
Benefits and payroll taxes	48.4	9%	44.5	8%	3.9
Subtotal Compensation and benefits	280.7	52%	261.8	51%	18.9
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)
Total Compensation and Benefits	<u>\$ 309.2</u>	58%	<u>\$ 295.9</u>	58%	<u>13.3</u>