

First Quarter Review

July 28, 2011

Mark R. Fetting
Chairman & CEO

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.

First Quarter Highlights

- Net Income \$60M or \$0.40 per diluted share. Adjusted Income \$109M or \$0.73 per diluted share
- Significant phase of targeted streamlining cost reductions completed at quarter end
- Successful ClearBridge Energy MLP Opportunity closed-end fund launch
 - Raised approximately \$600M
 - Results include \$11.4M pre-tax closed-end fund launch cost or \$0.05 per diluted share
- Long-term AUM net outflows decreased by 28% compared to prior quarter
 - Achieved fixed income AUM inflows for the first time since Dec 2007
- Repurchased and retired 6M shares in June quarter
- Retired \$103M of debt

Assets Under Management by Asset Class

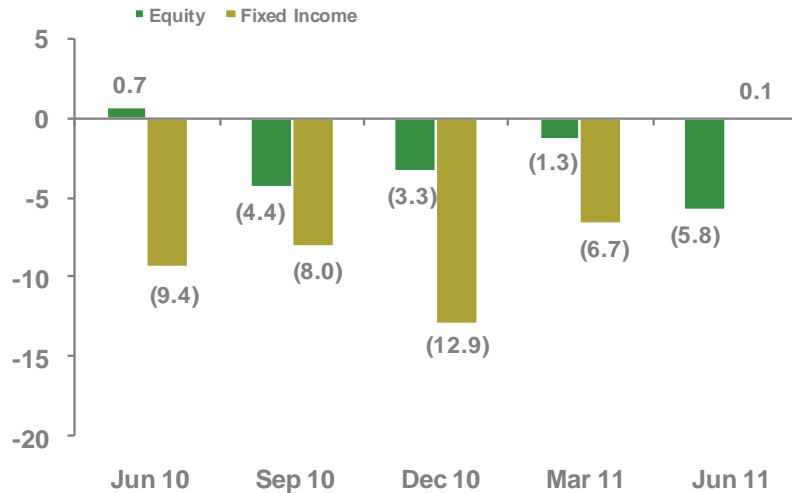
(\$ billions)



- Decline in AUM reflects \$18.1B disposition of liquidity sweep AUM transferred to MSSB and divestiture of Barrett Associates of \$1.3B
- Average AUM compared to prior quarter is down \$3B
- Effective advisory fee yield in line with prior quarter at 36 bps

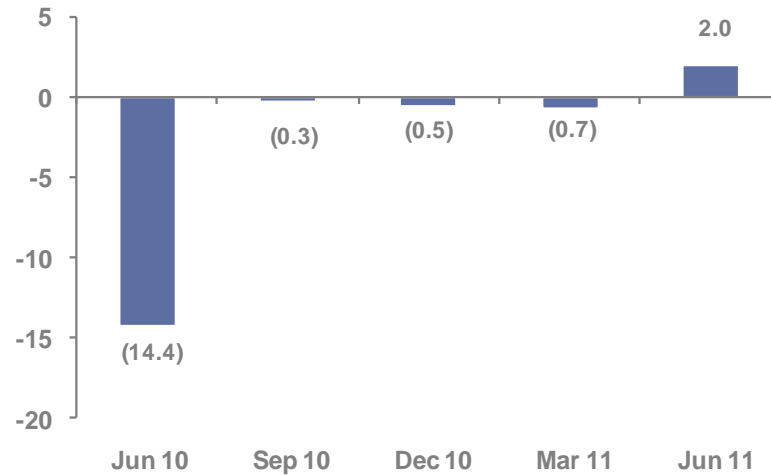
Net Flows

Long Term Net Flows (\$B)



Organic Growth Rate	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
	-6.5%	-9.6%	-11.9%	-5.9%	-4.2%

Liquidity Net Flows (\$B)



- June 11 quarter fixed income AUM flows positive for the first time since Dec 07
- Increase in equity outflows driven by separate accounts largely invested in large cap mandates

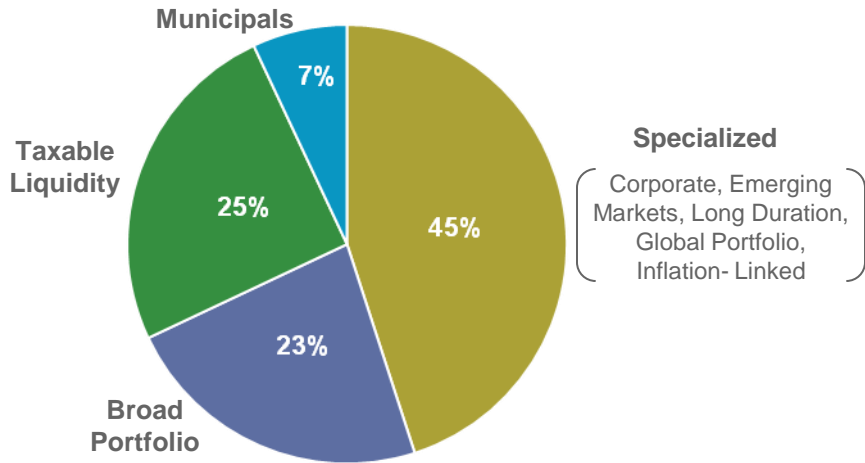
Assets Under Management (\$ billions)

AUM by Affiliate ¹	Jun 11 AUM	Mar 11 AUM	Jun 10 AUM	% Change vs.	
				Mar 11	Jun 10
Western Asset	\$ 446.9	\$ 455.2	\$ 456.7	(2) %	(2) %
Permal Group	20.9	20.8	17.9	1 %	17 %
Royce & Associates	43.4	43.9	31.0	(1) %	40 %
ClearBridge	57.4	57.8	47.1	(1) %	22 %
Batterymarch	22.6	23.6	19.5	(4) %	16 %
LM Capital Mgmt	11.6	15.2	14.8	(24) %	(22) %
Brandywine	32.7	31.8	29.4	3 %	11 %

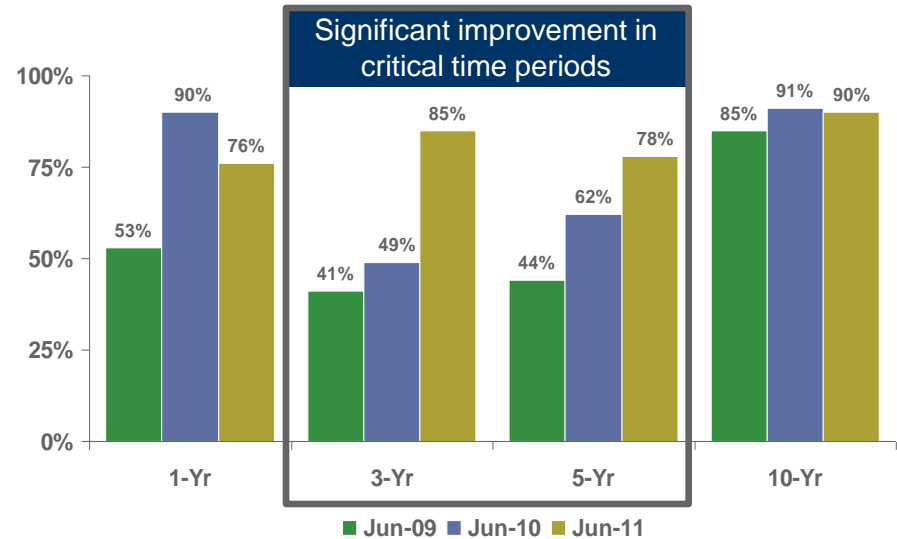
¹ Primary affiliates ordered by contribution to fiscal year 2012 pre-tax earnings

Western Update

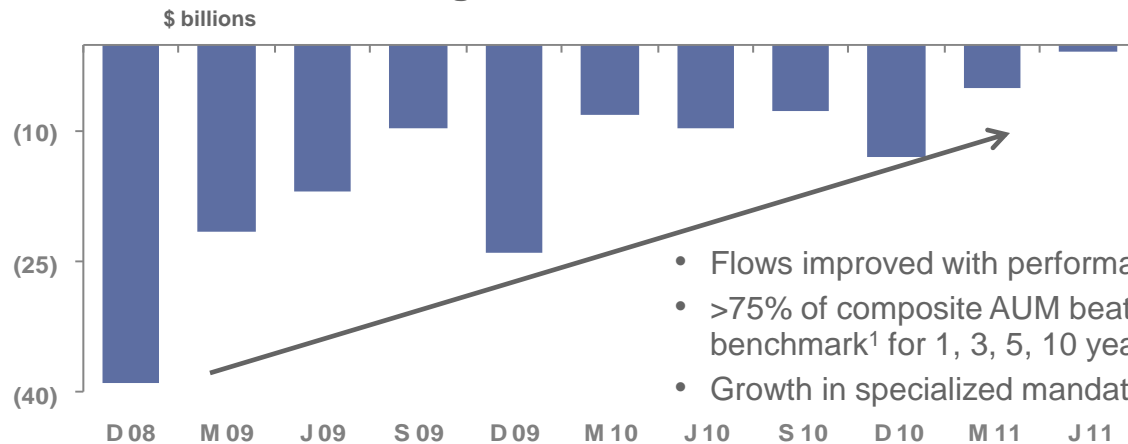
Total AUM by Mandate: \$447B



% of Composite AUM Beating Benchmark¹



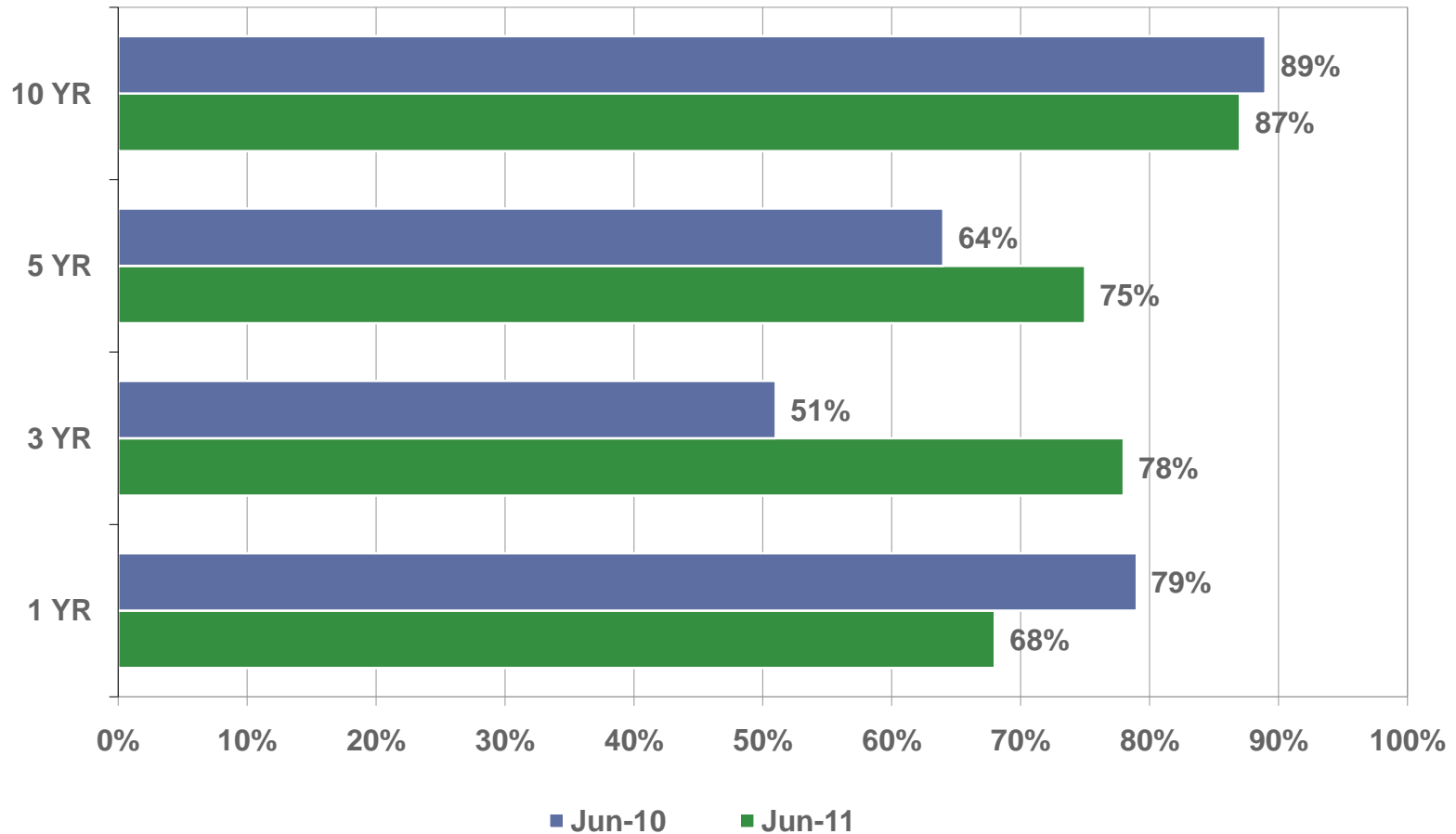
Long Term Net Flows



- Flows improved with performance
- >75% of composite AUM beating benchmark¹ for 1, 3, 5, 10 year periods
- Growth in specialized mandates

Marketed Composite Performance¹

% of AUM beating Benchmark



¹ Represents 89% of total AUM as of June 30, 2011. Includes liquidity.

Source: Lipper, Morningstar

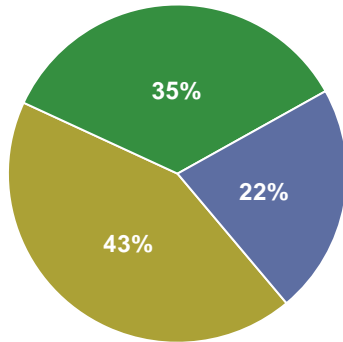
Global Distribution - Overview

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

Total AUM: \$228 Billion

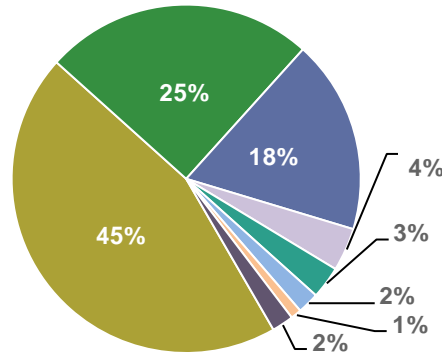
Locations: Offices in the US, Asia, Europe, Australia, Japan and Canada

AUM by Channel



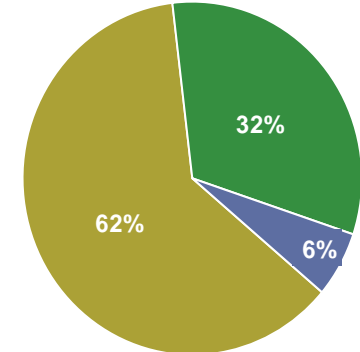
■ US Retail ■ US Individual ■ International

AUM by Affiliate



■ WAM ■ CBA ■ Royce ■ LCMCM
 ■ BFM ■ BGIM ■ LM Glb Eq ■ Other

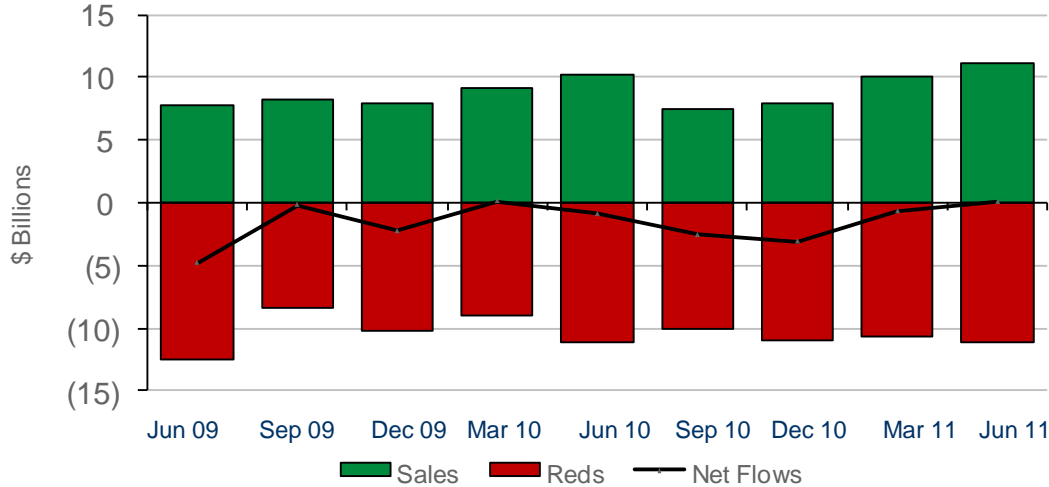
AUM by Product



■ Funds ■ SMA/Sep Accts ■ Closed End

US Distribution Long-Term Flow Trends

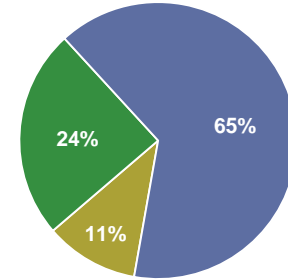
Quarterly Net Flows



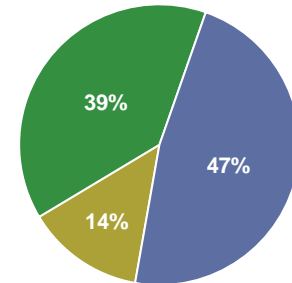
- Gross sales increased 11% over prior quarter
- Positive flows for the first time since Mar 10 quarter

Gross Sales by Channel

Jun 11 Qtr

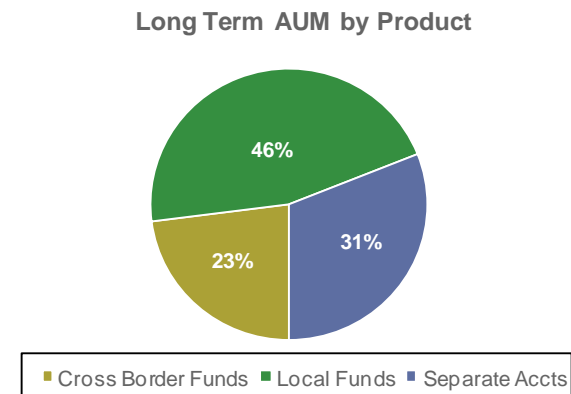
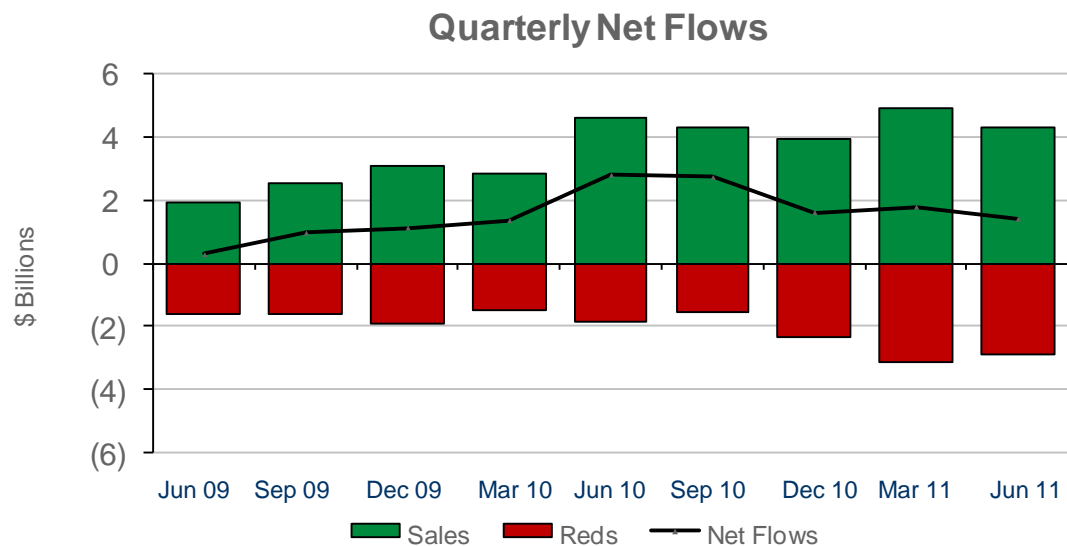


Jun 10 Qtr



Represents sales, redemptions and net flows by Legg Mason's Global Distribution – US operations

International Distribution Long-Term Flow Trends



- Positive flows in the past ten quarters

Represents sales, redemptions and net flows by Legg Mason's Global Distribution – International operations

Financial Highlights First Quarter FY 2012

- Net Income \$60M, \$0.40 per diluted share
- In first quarter FY 2012
 - Average AUM of \$671B, down \$3B from March quarter
 - Change largely reflects disposition of MSSB liquidity sweep AUM, partially offset by market appreciation
 - Operating revenues \$717M, up \$4M or 1% from prior quarter
 - Increase primarily reflects one additional day
 - Operating expenses of \$617M increased \$2M
 - Change driven by increased costs related to closed-end fund launch and Western reimbursement step-down, largely offset by lower compensation due to mark to market losses on deferred compensation and seed investments and lower corporate costs
 - Operating income \$100M, operating margin 14%
 - Adjusted income¹ \$109M or \$0.73 per diluted share
 - Operating margin, as adjusted¹, 21%

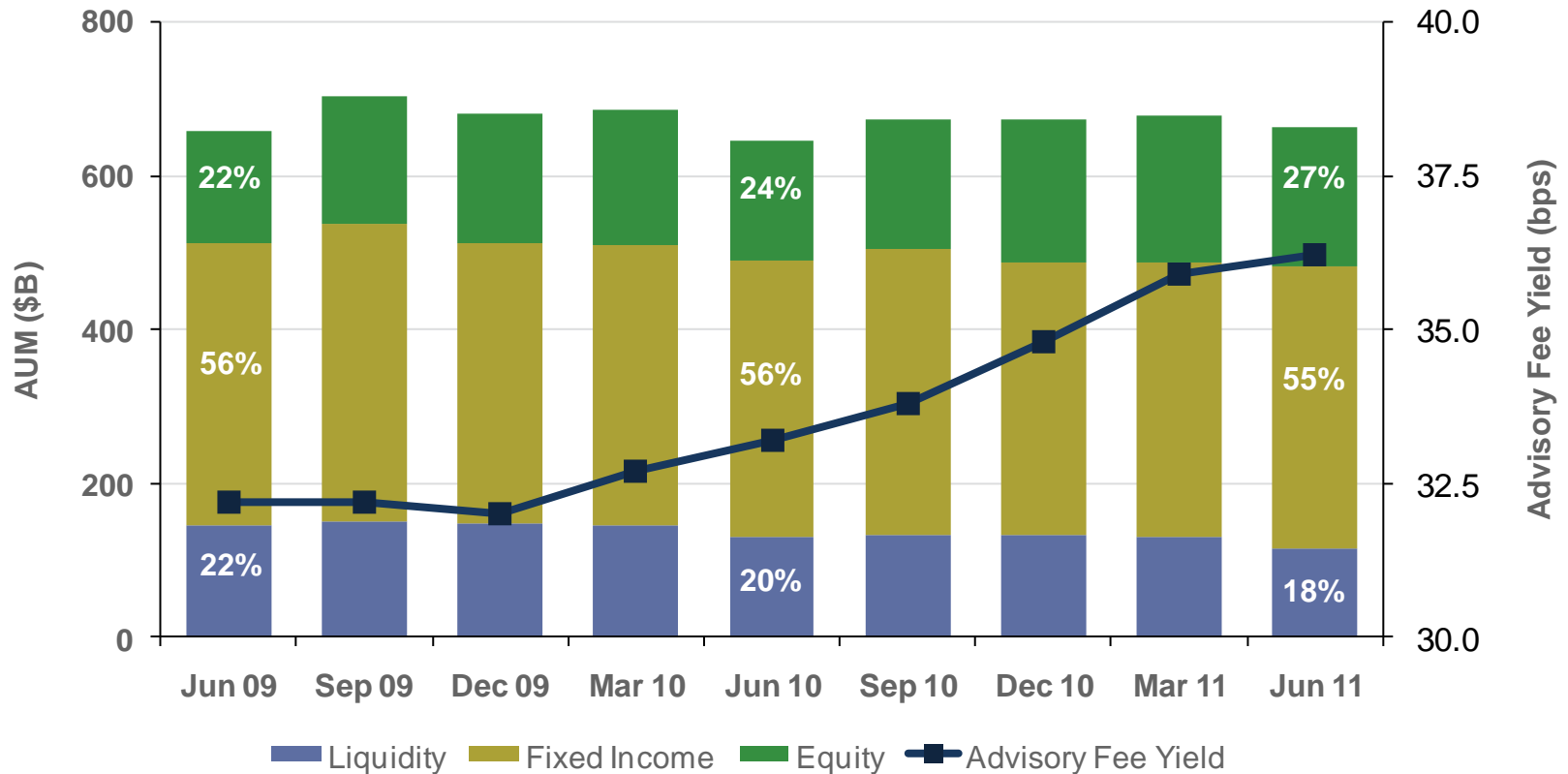
¹ See Appendix for GAAP reconciliation

Operating Results First Quarter FY 2012

(\$ millions, except per share amounts)	Jun 11 Qtr	Mar 11 Qtr	Jun 10 Qtr	\$ Change vs.	
				Mar 11	Jun 10
Operating Revenues	\$ 717.1	\$ 713.4	\$ 674.2	\$ 3.7	\$ 42.9
Operating Expenses	616.7	614.3	571.4	2.4	45.3
Operating Income	100.4	99.1	102.8	1.3	(2.4)
Net Income	60.0	69.0	47.9	(9.0)	12.1
Diluted EPS	0.40	0.45	0.30	(0.05)	0.10
Adjusted Income¹	109.1	117.7	96.3	(8.6)	12.8
Adjusted Income per diluted share	0.73	0.77	0.60	(0.04)	0.13
Operating Margin, as adjusted¹	21.0%	23.4%	20.9%		
Effective Tax Rate	31.1%	31.0%	37.5%		

¹ See Appendix for GAAP reconciliation

Advisory Fee Yield / Assets Under Management



Operating Expenses

(\$ millions)	Jun 11	Mar 11	% Chg	Jun 10	% Chg
Compensation and benefits	\$ 311.7	\$ 311.5	0%	\$ 268.8	16%
Distribution and servicing	180.8	174.9	3%	184.7	(2%)
Communications and technology	40.5	43.3	(6%)	40.0	1%
Occupancy	33.2	33.4	(1%)	33.7	(1%)
Amortization of intangible assets	5.6	5.7	(1%)	5.7	(2%)
Other	44.9	45.5	(1%)	38.5	17%
Total Operating Expenses	<u>\$ 616.7</u>	<u>\$ 614.3</u>	0%	<u>\$ 571.4</u>	8%

- Jun 11 operating expenses include closed-end fund launch costs of \$11.4M primarily in distribution and servicing
- Decrease in communications and technology driven by system conversion costs related to streamlining initiatives incurred in prior quarter

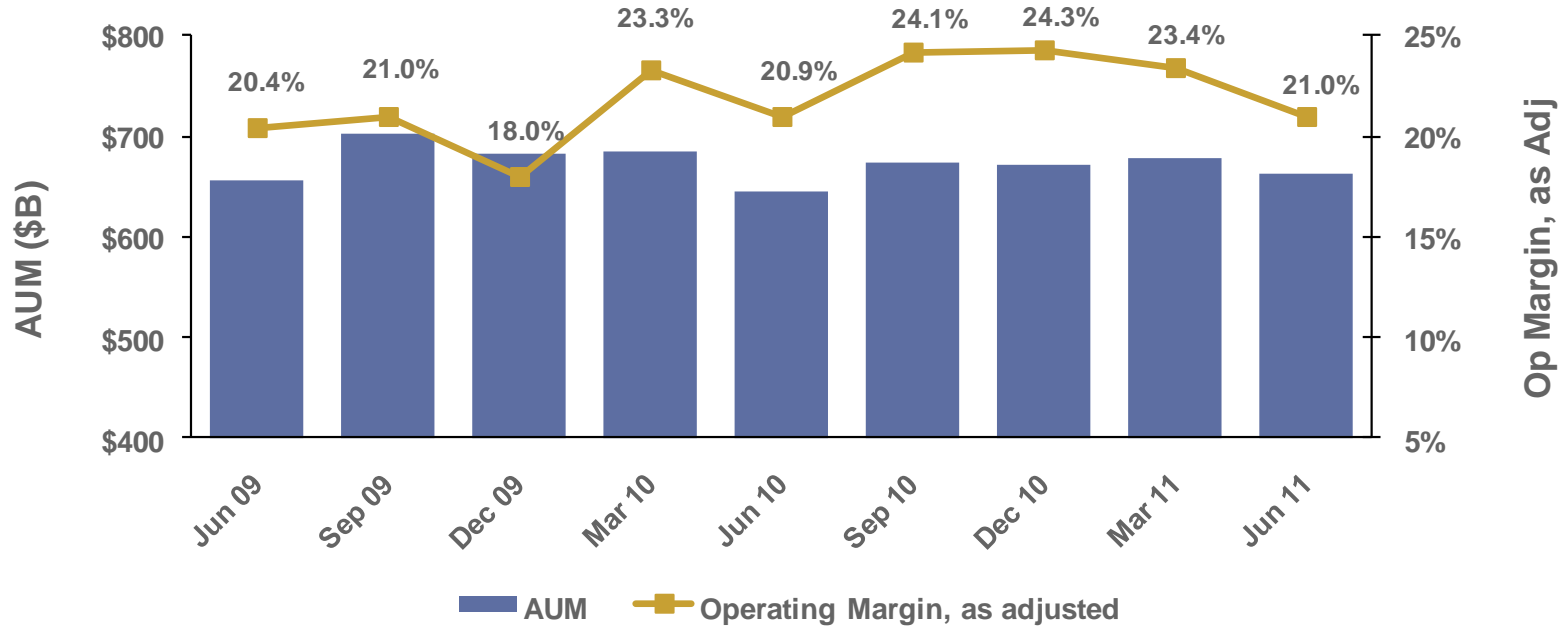
Compensation and Benefits

(\$ millions)	Jun 11	% of Net Rev. ¹	Mar 11	% of Net Rev.	\$ Change
Salary and incentives	\$ 245.7	46%	\$ 231.8	43%	\$ 13.9
Benefits and payroll taxes	56.7	11%	55.9	10%	0.8
Subtotal Compensation and benefits	302.4	56%	287.7	53%	14.7
Transition-related costs and severance	11.7	2%	13.6	3%	(1.9)
MTM deferred comp. and seed investments	(2.4)	(0%)	10.2	2%	(12.6)
Total Compensation and Benefits	\$ 311.7	58%	\$ 311.5	58%	0.2

- Total Compensation and benefits unchanged from prior quarter.
 - Current quarter results reflect:
 - Increased compensation related to the Western reimbursement step-down
 - Reduced compensation related to MTM on deferred comp. and seed investments
 - Lower transition-related costs
- Impact of closed-end fund launch on compensation ratio 1%

¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



- Decline in June quarter operating margin, as adjusted largely driven by Western reimbursement step-down and closed-end fund launch costs
- Impact of closed-end fund launch on operating margin, as adjusted approximately 1.7%

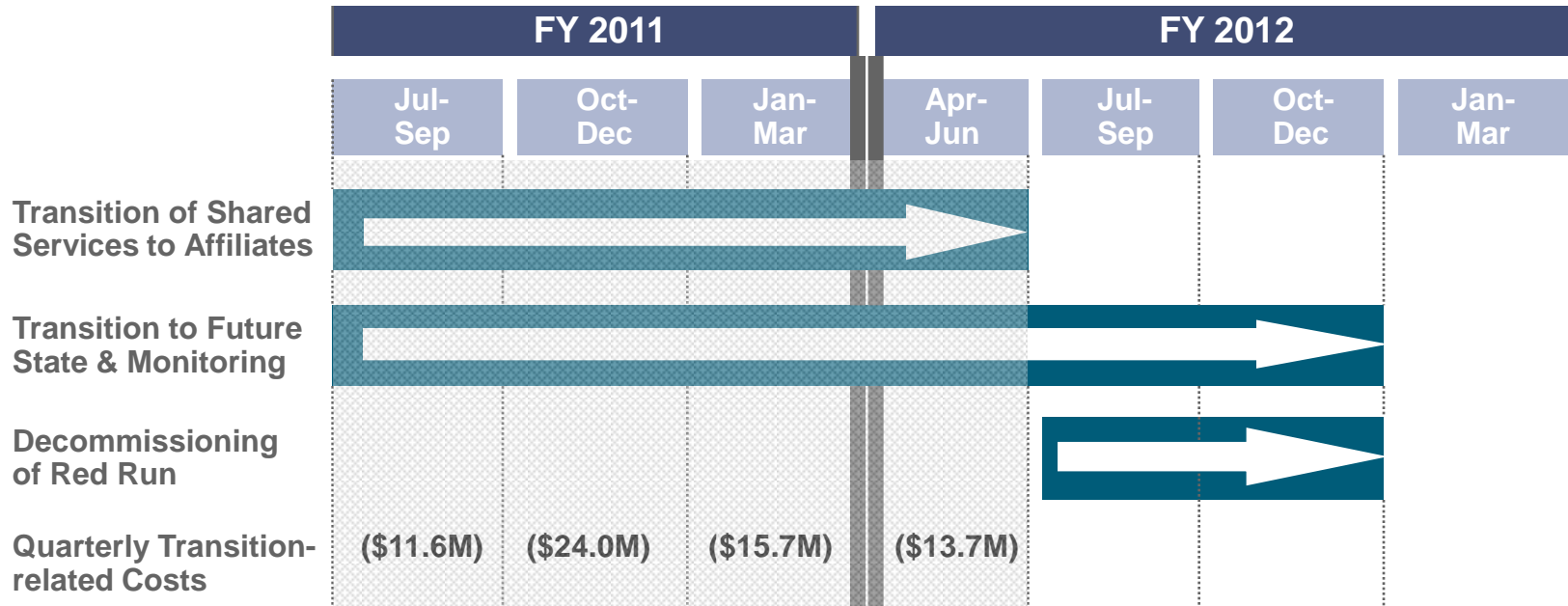
Update on Streamlining our Business Model

- June 30, 2011 marked one year into streamlining initiative
 - Completed significant phase of systems conversion and personnel RIF
 - 300 reductions in force since streamlining initiative inception – including over 200 this quarter
 - Transition-related expenses incurred to date \$68M
 - Savings realized in current quarter of \$9M
 - Projected costs and savings related to streamlining initiatives remain on target
 - \$130M - \$150M annualized savings to be realized by fourth quarter FY 2012
 - Restructuring and related costs estimated between \$125M - \$135M
- Second quarter transition-related savings total an estimated \$25M
- Transition-related expenses for the second quarter estimated at \$15M

Achievement of all projected savings, 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

Timing and Financial Impact of Streamlining

Expenses associated with streamlining initiative total \$68M



	FY 2011	FY 2012	F4Q12	Annualized Q4 FY 2012
Estimated Total Impact	(\$42M)	\$20M	\$35M	\$140M

Achievement of all projected savings, 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

Share Repurchase

- 20.6M shares or 13% of shares outstanding were repurchased since the Board Authorization

Shares Repurchased	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
2.0M	Open market share repurchase – QE March 2011
6.0M	Open market share repurchase – QE June 2011
20.6M	Total shares repurchased under \$1B Board Authorization announced last year

- Approximately \$200M of shares repurchased in June 2011 quarter
- \$355M remains of the Board authorized stock repurchase of up to \$1B
- We plan to repurchase \$200M additional shares in the remainder of FY 2012

Closing Comments

- A Quarter of Good Progress
 - Strong earnings – EPS of \$0.40 including an \$0.11 impact due to costs related to streamlining initiatives and closed-end fund launch
 - Significant streamlining milestone achieved
 - Successful equity closed-end fund launch
 - Achieved fixed income inflows for the first time since 2007
 - Repurchased and retired 6M shares
 - Retired \$103M of debt
- Go Forward Themes
 - Support affiliates on client performance and franchise expansion
 - Fixed income - encouraging momentum
 - Equity - much distinction, some challenges
 - Alternatives - expanding opportunity set
 - Accelerate growth through LM distribution
 - Complete our streamlining on time, on task and on budget
 - Deploy capital to enhance shareholder value

Appendix

Streamlined Legg Mason Business Model



Appendix - GAAP Reconciliation

Consolidated Statement of Income excluding Investment Vehicles¹

	Quarter Ended June 30, 2011			Quarter Ended March 31, 2011			Quarter Ended June 30, 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
(\$ millions)									
Operating Revenues:									
Investment advisory fees	\$ 623.6	\$ 1.1	\$ 624.6	\$ 616.1	\$ 1.2	\$ 617.4	\$ 576.4	\$ 0.8	\$ 577.2
Distribution and service fees	92.1	-	92.1	95.0	-	95.0	96.3	-	96.3
Other	1.5	-	1.5	2.3	-	2.3	1.4	-	1.4
Total operating revenues	717.1	1.1	718.2	713.4	1.2	714.7	674.2	0.8	674.9
Operating Expenses:									
Compensation and benefits	311.7	-	311.7	311.5	-	311.5	268.8	-	268.8
Distribution and servicing	180.8	(0.0)	180.7	174.9	(0.1)	174.8	184.7	(0.0)	184.7
Other	124.2	(0.1)	124.1	127.9	(0.1)	127.8	117.9	(0.5)	117.4
Total operating expenses	616.7	(0.1)	616.6	614.3	(0.1)	614.2	571.4	(0.5)	570.9
Operating Income	100.4	1.2	101.5	99.1	1.4	100.5	102.8	1.2	104.0
Other Non-Operating Income (Expense)									
Net interest income (expense)	(19.3)	-	(19.3)	(19.5)	-	(19.5)	(21.0)	-	(21.0)
Other income (expense)	8.5	(2.8)	5.7	23.0	(3.0)	19.9	(9.7)	1.7	(8.0)
Other non-operating income (expense)	(10.8)	(2.8)	(13.6)	3.5	(3.0)	0.5	(30.7)	1.7	(29.0)
Income Before Income Tax Provision	89.6	(1.7)	87.9	102.6	(1.7)	101.0	72.1	2.9	75.0
Income tax provision	27.9	-	27.9	31.9	-	31.9	27.1	-	27.1
Net Income	61.7	(1.7)	60.0	70.8	(1.7)	69.1	45.0	2.9	48.0
Less: Net income (loss) attributable to noncontrolling interests	1.7	(1.7)	0.1	1.7	(1.7)	0.1	(2.9)	2.9	0.1
Net Income Attributable to Legg Mason, Inc.	\$ 60.0	\$ -	\$ 60.0	\$ 69.0	\$ -	\$ 69.0	\$ 47.9	\$ -	\$ 47.9
Effective Income Tax Rate	31.1%			31.0%			37.5%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			31.7%			31.6%			36.1%

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

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Jun 11	Mar 11	Jun 10
(\$ millions, except per share amounts)			
Net Income attributable to Legg Mason, Inc.	\$ 60.0	\$ 69.0	\$ 47.9
Plus (Less):			
Amortization of intangible assets	5.6	5.7	5.7
Deferred income taxes on intangible assets:			
Tax amortization benefit	34.0	33.6	33.8
Imputed interest on convertible debt	9.5	9.4	8.9
Adjusted Income	<u>\$ 109.1</u>	<u>\$ 117.7</u>	<u>\$ 96.3</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.40	\$ 0.45	\$ 0.30
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.23	0.22	0.21
Imputed interest on convertible debt	0.06	0.06	0.05
Adjusted Income per Diluted Share	<u>\$ 0.73</u>	<u>\$ 0.77</u>	<u>\$ 0.60</u>

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

Appendix – GAAP Reconciliation

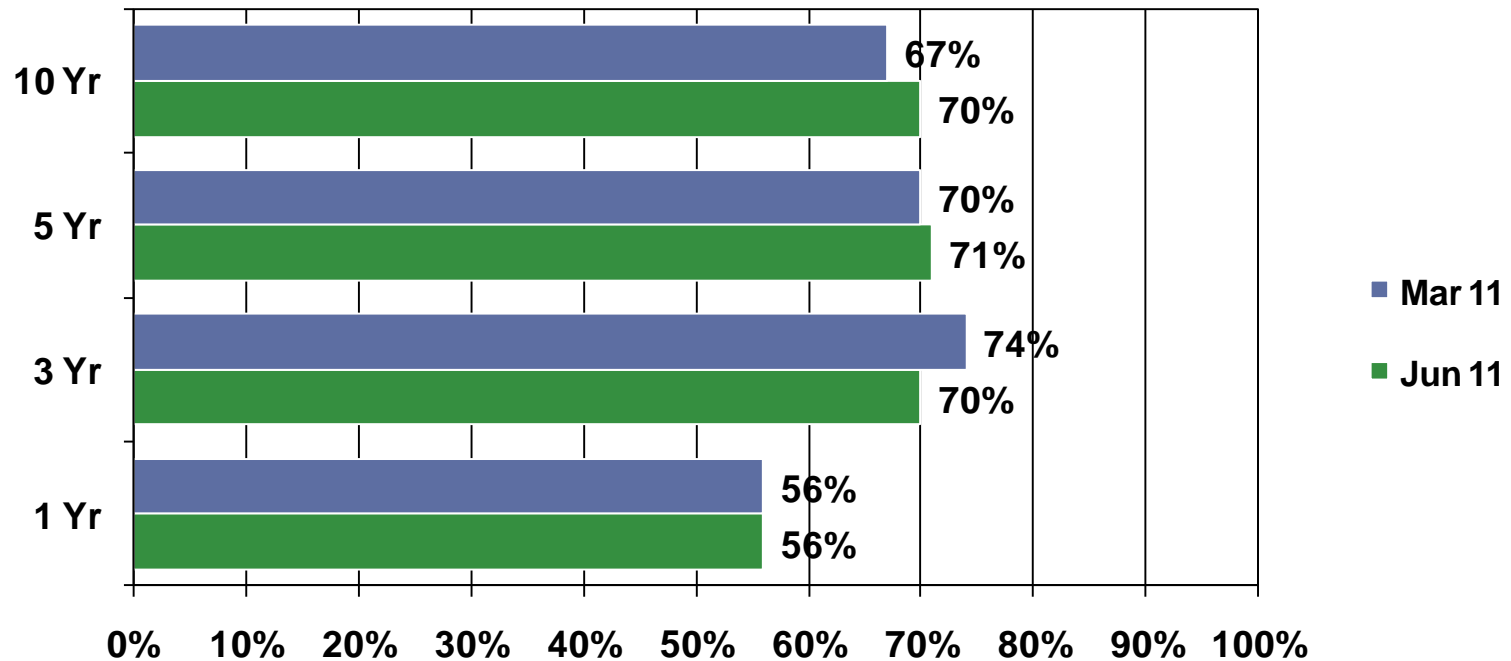
Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Operating Revenues, GAAP basis	\$ 613.1	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.8	0.6	0.9	0.5	0.8	1.0	1.2	1.2	1.1
Distribution and servicing expense excluding consolidated investment vehicles	<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>(180.7)</u>
Operating Revenues, as adjusted	<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>\$ 537.4</u>
Operating Income, GAAP basis	\$ 58.3	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	31.4	24.1	12.6	11.2	(4.6)	22.1	8.6	10.2	(2.4)
Transition-related costs	-	-	-	-	3.2	11.6	24.0	15.7	13.7
Operating income and expenses of consolidated investment vehicles	<u>0.3</u>	<u>0.2</u>	<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>
Operating Income, as adjusted	<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>\$ 112.9</u>
Operating margin, GAAP basis	9.5%	11.8%	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	14.0%
Operating margin, as adjusted	20.4%	21.0%	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	21.0%

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

Long-Term Fund Performance

% of Long-Term U.S. Fund Assets beating Lipper Category Average¹



¹ As of June 30, 2011, 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.