

Barclays Capital
Global Financial Services
Conference
September 13, 2011

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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
- Strong earnings
 - Diluted EPS of \$0.40 in QE Jun-11 up 33% compared QE Jun-10
- 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 June 30, 2011:

- Revenue TTM: \$2.8B
- TTM: Diluted EPS \$1.76; Adj. Income per share \$2.99
- Shares Outstanding – 149M
- Institutional Holdings: 89%
- AUM¹: \$643B
- Equity: \$5.7B
- Market Cap¹: \$3.9B
- Stock Price¹: \$26.02

¹ As of September 9, 2011

Streamlined Legg Mason Business Model



CFO Priorities

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

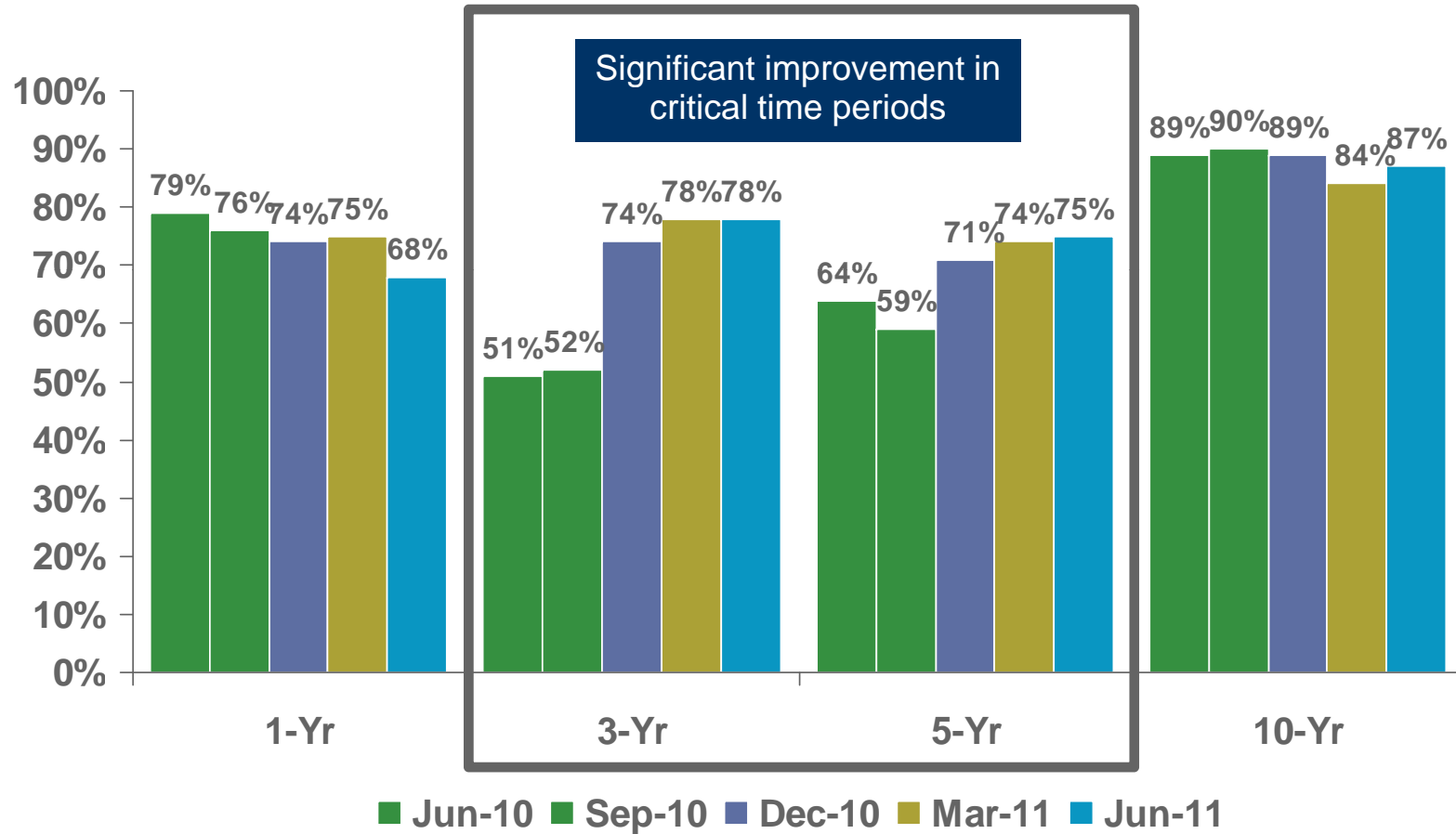
First Quarter Highlights

- 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 with over 200 reductions in force during the quarter
 - Transition-related cost for the quarter were \$13.7M or \$0.06 per share
- Successful ClearBridge Energy MLP closed-end fund launch
 - Raised approximately \$600M
 - Results include \$11.4M pre-tax closed-end fund launch costs 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

¹ See Appendix for reconciliation

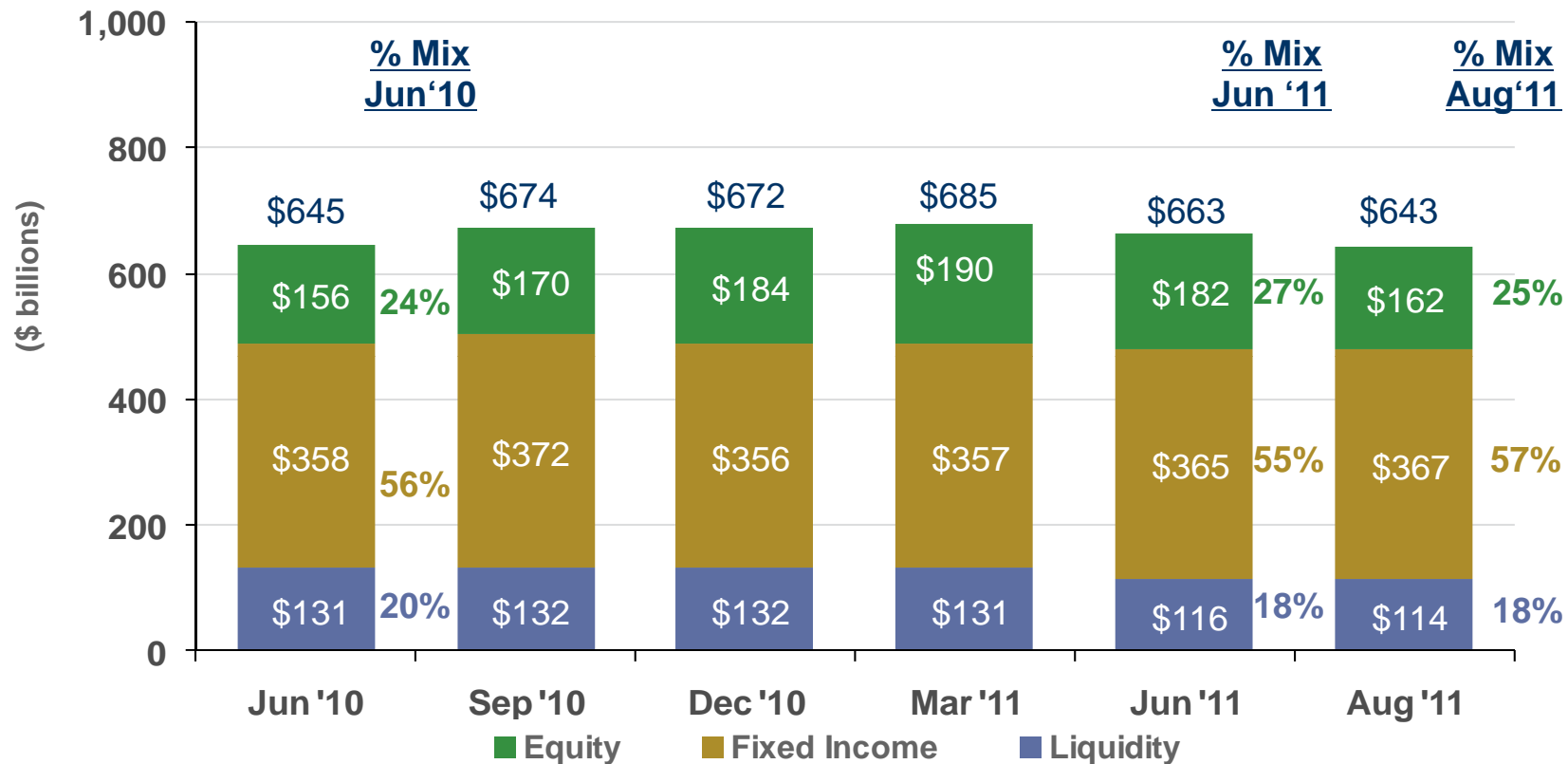
Composite Performance

% of Composite AUM Beating Benchmark¹ (includes liquidity)



¹ Covers approximately 90% of total AUM

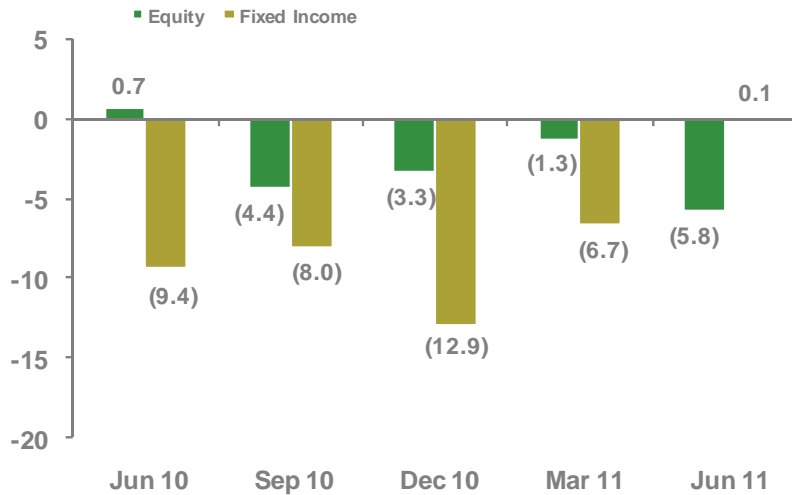
Assets Under Management



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

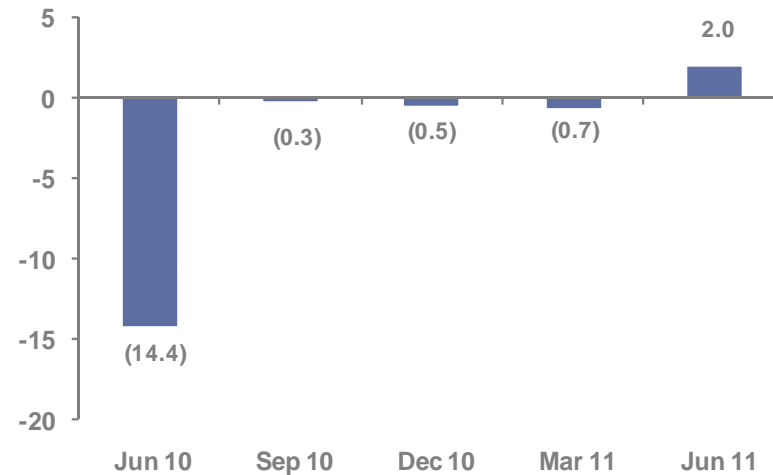
Net Flows

Long Term Net Flows (\$B)



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

Liquidity Net Flows (\$B)



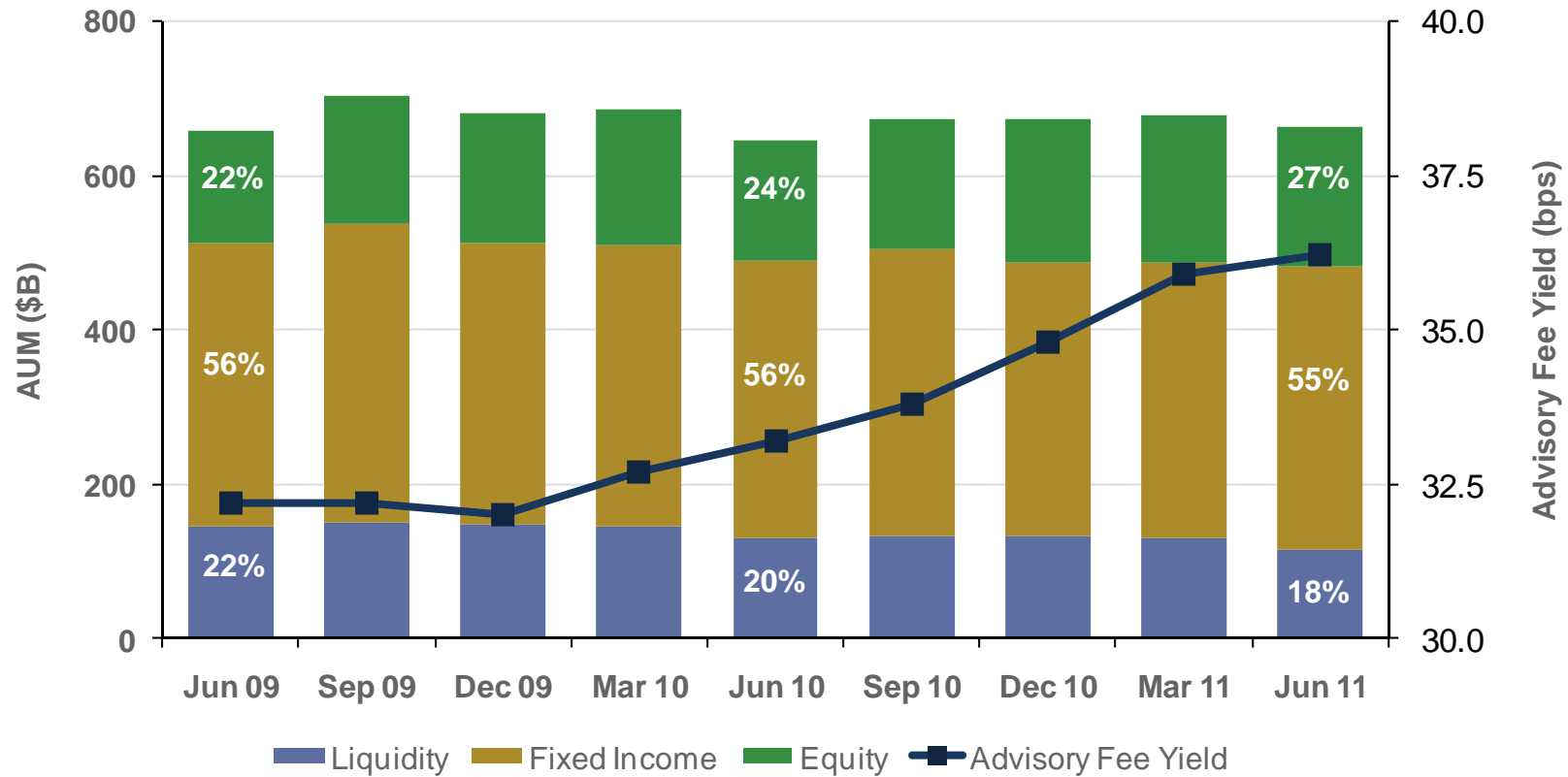
- June 11 quarter fixed income AUM flows positive for the first time since Dec 07
- Increase in equity outflows driven by separate accounts largely invested in large cap mandates

Operating Results First Quarter FY 2012

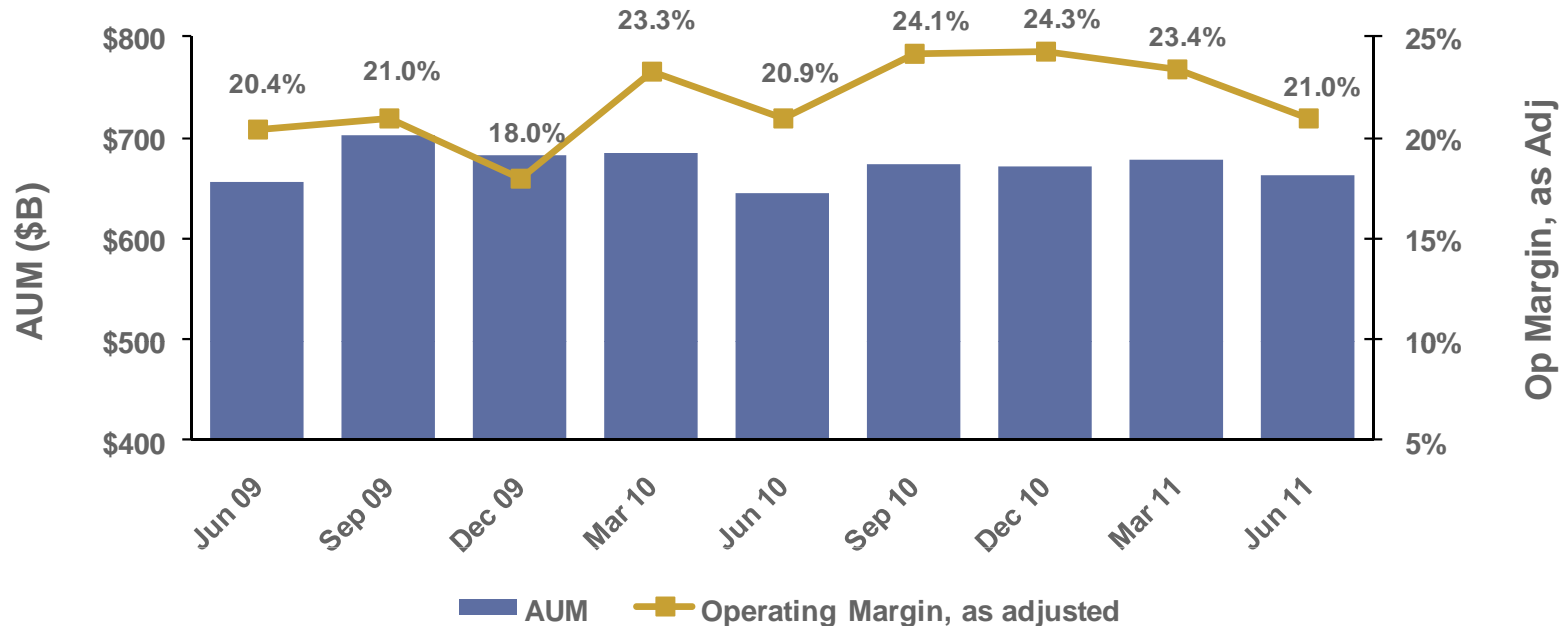
(\$ millions, except per share amounts)	Jun 11 Qtr	Jun 10 Qtr	% Change	Jun 11 Qtr	Mar 11 Qtr	% Change
Operating Revenues	\$ 717.1	\$ 674.2	6.4%	\$ 717.1	\$ 713.4	0.5%
Operating Expenses	616.7	571.4	7.9%	616.7	614.3	0.4%
Operating Income	100.4	102.8	-2.3%	100.4	99.1	1.3%
Net Income	60.0	47.9	25.3%	60.0	69.0	-13.0%
Diluted EPS	0.40	0.30	33.3%	0.40	0.45	-11.1%
Adjusted Income¹	109.1	96.3	13.3%	109.1	117.7	-7.3%
Adjusted Income per diluted share	0.73	0.60	21.7%	0.73	0.77	-5.2%
Operating Margin, as adjusted¹	21.0%	20.9%		21.0%	23.4%	
Effective Tax Rate	31.1%	37.5%		31.1%	31.0%	

¹ See Appendix for GAAP reconciliation

Advisory Fee Yield / Assets Under Management



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%

Balance Sheet and Credit Ratings

- Net Debt of \$200M
 - Cash of \$1.2B
 - Total debt of \$1.4B
- Total debt to total capital ratio of 19%
- Debt reduction of \$103M in QE Jun-11
- Strong quarterly cash generation
- Credit Ratings as of June 30th 2011:

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

Investing With & In Affiliates to Help Drive Growth

Effectively deploy capital to develop new products 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 \$422 million as of June 30, 2011
- 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

New Products Target Long-Term AUM Growth

Top 10 product launches since 2007

Fund	Launch Date	Assets at Jun-11
Legg Mason Brazilian Government Bond Fund	Oct-08	\$ 4.6B
ClearBridge Energy MLP Fund Inc.	Jun-10	\$ 1.8B
Legg Mason Global Plus	Aug-07	\$ 1.5B
RLJ Western Asset Public/Private Master Fund	Nov-09	\$ 1.4B
Legg Mason Global Multi Strategy Bond Fund	May-08	\$ 860M
Legg Mason Western Asset Asian Opportunities Bond Fund	Jul-08	\$ 662M
Legg Mason Batterymarch US Large Cap Equity Fund	Apr-08	\$ 554M
ClearBridge Energy MLP Opportunity Fund	Jun-11	\$522M
Western Asset High Yield Defined Opportunity Fund Inc.	Nov-10	\$ 435M
Western Asset Global Corporate Defined Opportunity Fund Inc.	Nov-09	\$ 383M

Share Repurchases Contribute to Long-Term EPS Growth

- 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

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 June 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

Our Strategy to Deliver Value

Outstanding independent investment managers

A corporate center that delivers strategic value

A growth oriented portfolio across asset classes, geographies and channels



Investment Highlights

- Affiliate model helps mitigate risk
- Strong cash generation expected despite short term fluctuations
- Successfully managing expenses and committed to efficient, impactful capital deployment
- Strong balance sheet
- Significant earnings leverage over the next 3 to 5 years

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
 - Complete our streamlining on time, on task and on budget
 - 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
 - Deploy capital to enhance shareholder value

LEGG MASON

GLOBAL ASSET MANAGEMENT

Appendix

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.

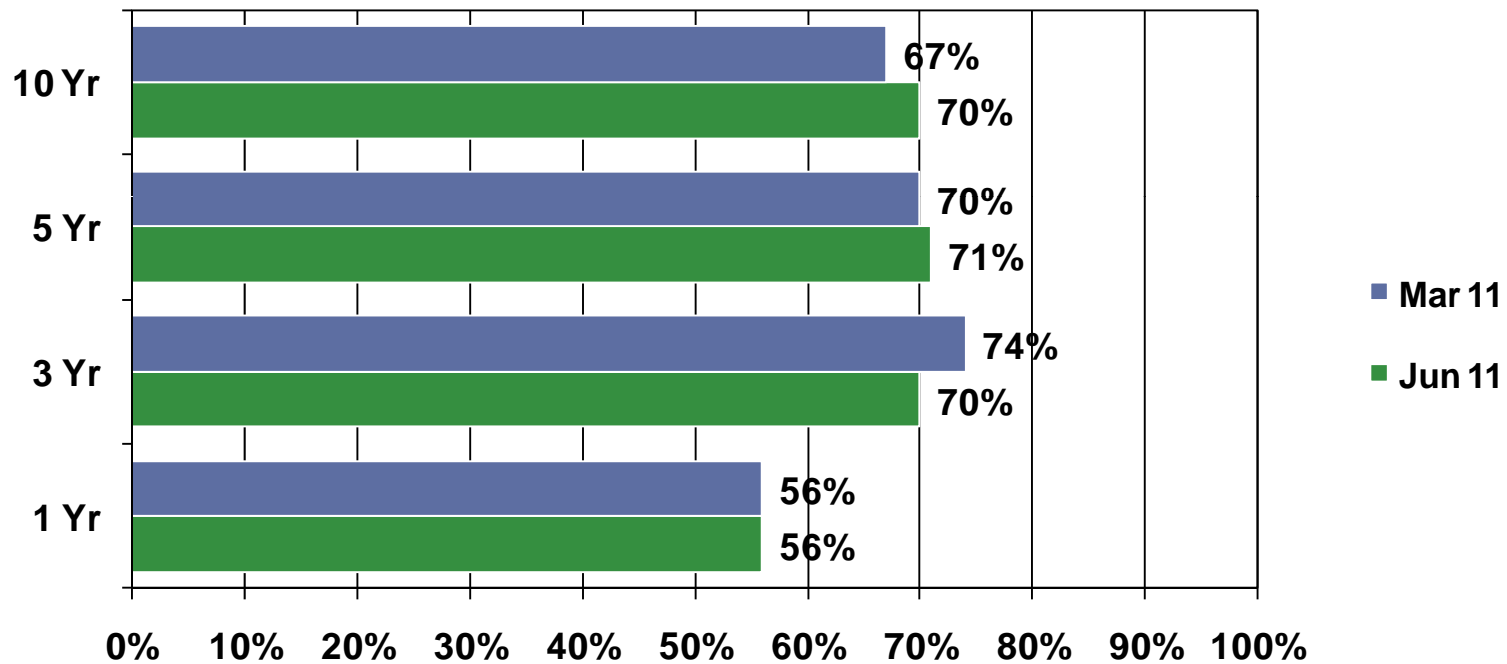
Appendix - Operating Expenses

(\$ 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	% 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	<u>\$ 311.7</u>	58%	<u>\$ 311.5</u>	58%	<u>0.2</u>

Appendix - 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.

Important Notes

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