

Legg Mason, Inc.
First Quarter FY 2011 Review
July 26, 2010

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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.

Business Developments

- Streamlining our business
 - Implementation began July 1st
 - Have made progress on transition plans
 - Core project team in place
- Highly successful ClearBridge Energy MLP closed-end fund launch
 - Raised \$1.3B (assuming full exercise of underwriters' over allotment option)
- Executed Share Repurchase
 - 9.7M shares repurchased
- Positive Equity Net Flows
 - Long-term asset net flows continue to trend favorably
- Net Income \$48M, \$0.30 EPS
- Adjusted Income¹ \$96M, \$0.60 per diluted share

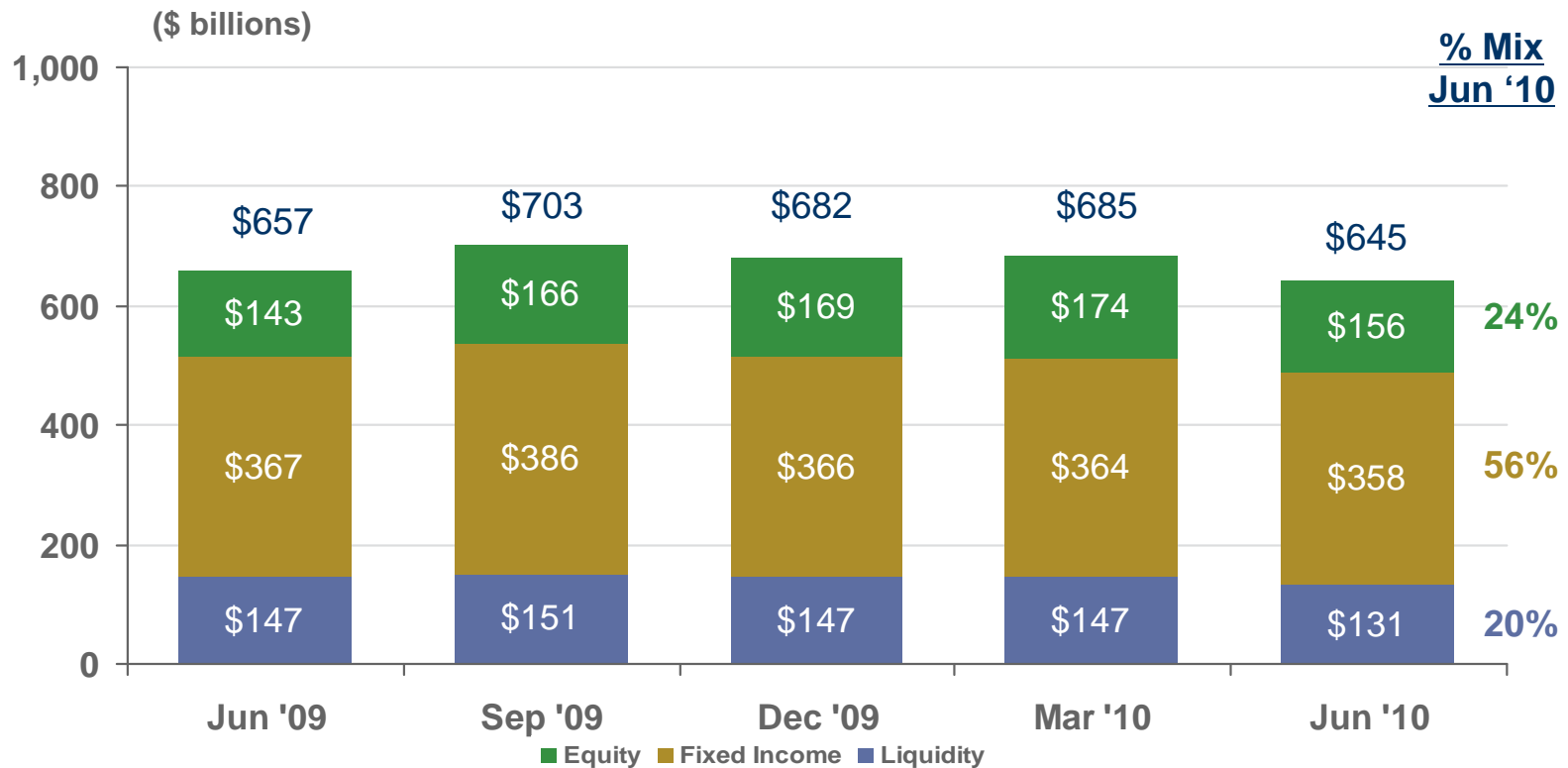
¹ See Appendix A for GAAP reconciliation

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

Streamlined Legg Mason Business Model



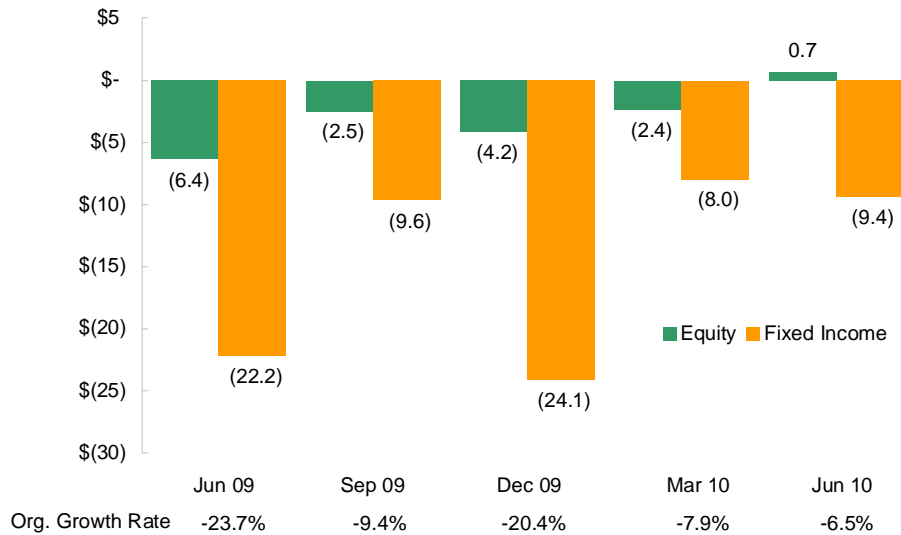
Assets Under Management by Asset Class



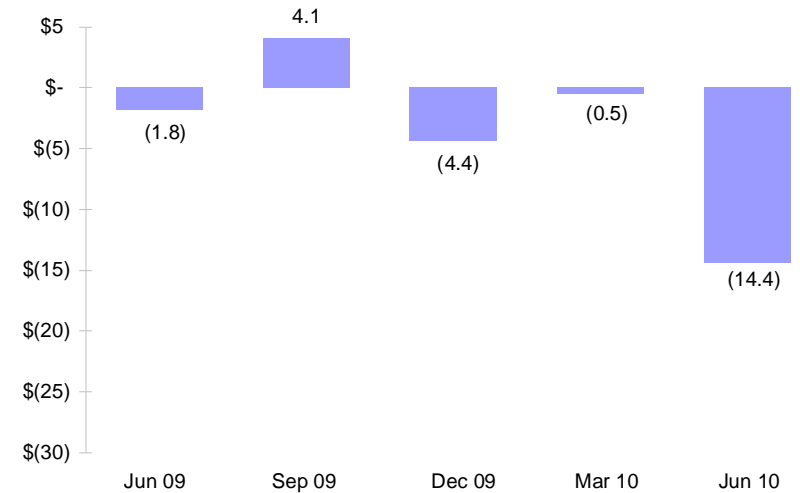
- AUM declined approximately \$40B or 6%. Market depreciation on long term AUM \$16B
- Third party retail liquidity sweep business to convert to proprietary platform in March 2011 quarter

Net Flows

Long Term Net Flows (\$ billions)



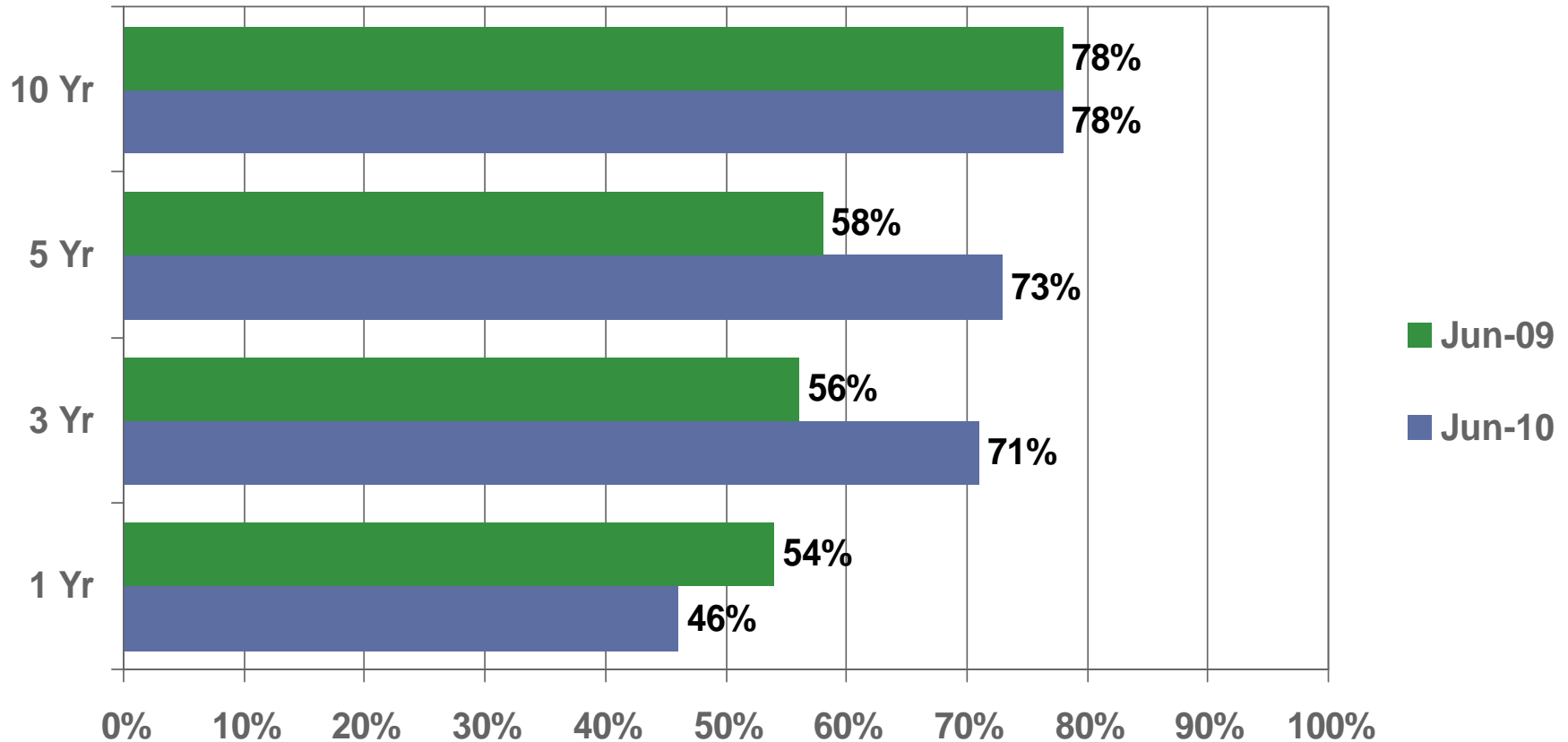
Liquidity Net Flows (\$ billions)



- Total long-term net flows continue to trend favorably. Best quarter of long term net flows since September 2007
- Positive equity net flows of \$0.7B were driven by launch of ClearBridge Energy MLP

Long-Term Fund Performance

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

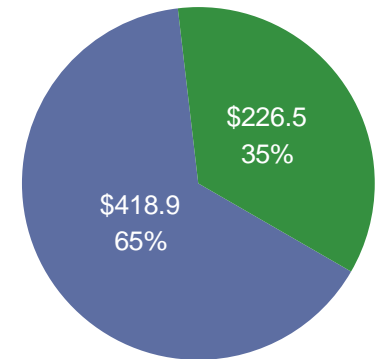


¹ As of June 30, 2010, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

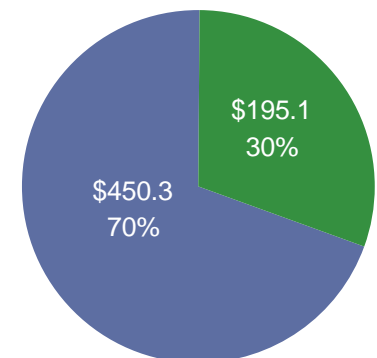
Assets Under Management (\$ billions)

AUM by Affiliate ¹	Jun '10 AUM	Mar '10 AUM	Jun '09 AUM	Vs. Prior Year Quarter	
				\$ Change	% Change
Western Asset	\$ 456.7	\$ 478.2	\$ 483.7	\$ (27.0)	(6)%
Permal Group	17.9	17.4	17.2	0.7	4 %
ClearBridge	47.1	54.4	47.0	0.1	0 %
Royce & Associates	31.0	33.9	23.3	7.7	33 %
LM Capital Mgmt	14.8	17.9	13.7	1.1	8 %
Brandywine	29.4	30.4	26.3	3.1	11 %
Batterymarch	19.5	20.9	17.7	1.8	10 %

AUM by Client Domicile

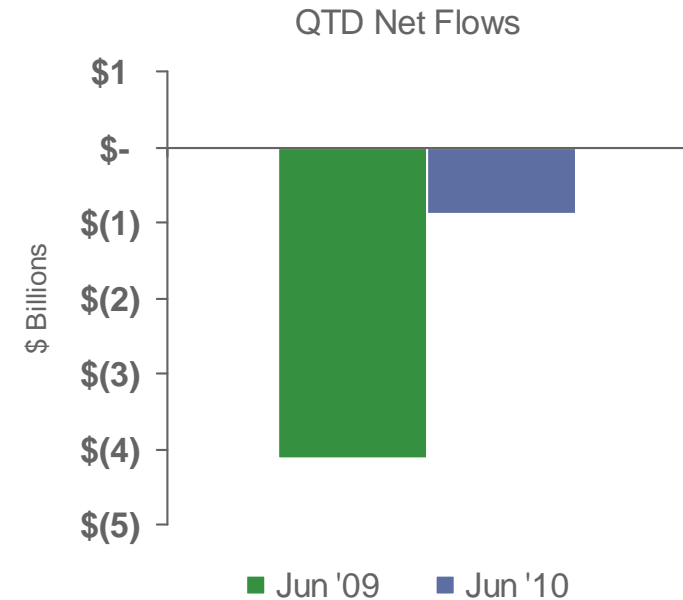
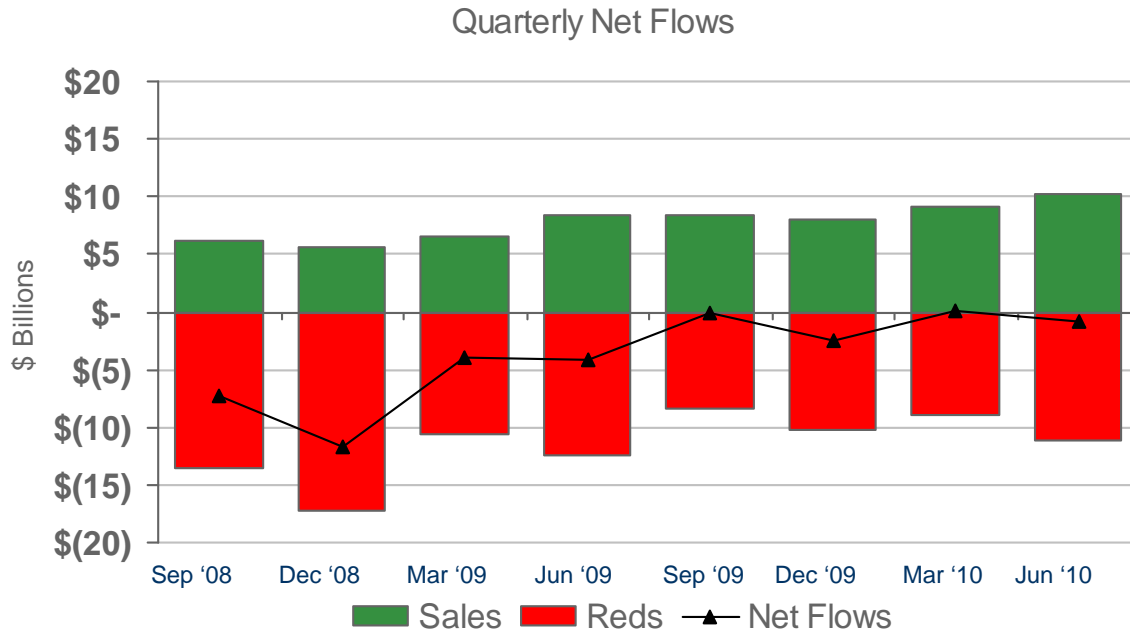


AUM by Division



¹ Primary affiliates ordered by contribution to fiscal year 2011 pre-tax earnings

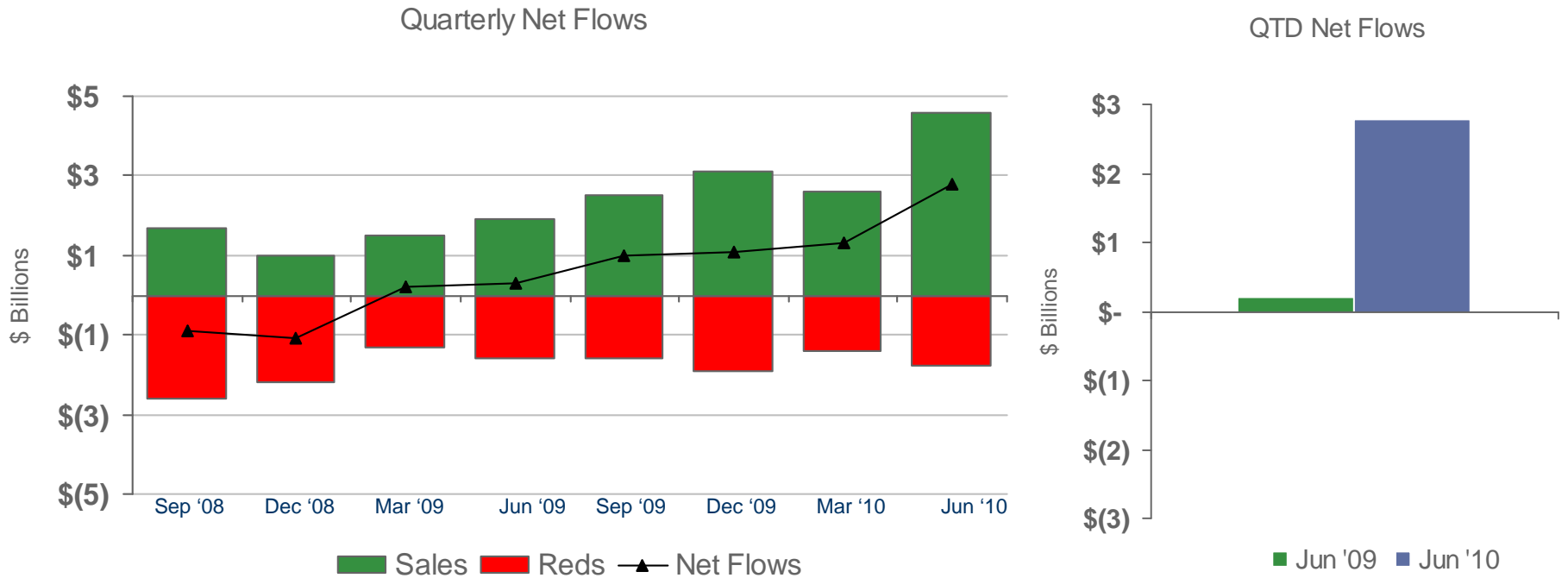
Americas Distribution Long-Term Flow Trends



- Compared to June 2009 quarter, net flows have improved by 78% reflecting both an increase in sales and lower redemption rate

Represents sales, redemptions and net flows by Legg Mason's centralized Americas distribution operations

International Distribution Long-Term Flow Trends



- International long-term net flows have increased over each of the past six quarters
- Compared to June 2009 quarter, sales have increased 138% or \$2.7B

Represents sales, redemptions and net flows by Legg Mason's centralized International distribution operations

Financial Highlights First Quarter FY 2011

- Net Income, \$48M, \$0.30 per diluted share
- In first quarter FY 2011
 - Average AUM of \$668B, down \$13B or 2% from the prior quarter
 - Operating revenues \$674M, up slightly from prior quarter
 - One additional day and decreased money fund waivers largely offset by lower average AUM
 - Operating expenses of \$571M increased by 1%.
 - First quarter operating expenses include closed-end fund launch expenses of \$18M. Prior quarter includes net \$13M expense related to settlement reserve and \$8M lease reserve credit adjustment
 - Operating income \$103M, operating margin 15.2%
 - Adjusted income¹ \$96M or \$0.60 per diluted share
 - Operating margin, as adjusted¹, 20.9%
 - Impact of closed-end fund launch expenses on operating margin, as adjusted, was 2.9%

¹ See Appendix for GAAP reconciliation

Note: Adjusted income was formerly reported as “Cash income, as adjusted”

Operating Results First Quarter FY 2011

(\$ millions, except per share amounts)	Jun 10 Qtr	Mar 10 Qtr	Jun 09 Qtr	\$ Change vs.	
				Mar 10	Jun 09
Operating Revenues	\$ 674.2	\$ 671.4	\$ 613.1	\$ 2.8	\$ 61.1
Operating Expenses	571.4	565.6	554.8	5.8	16.6
Operating Income	102.8	105.8	58.3	(3.0)	44.5
Net Income	47.9	63.6	50.1	(15.7)	(2.2)
Diluted EPS	0.30	0.39	0.35	(0.09)	(0.05)
Adjusted Income¹	96.3	111.3	86.8	(15.0)	9.5
Adjusted Income per diluted share	0.60	0.69	0.61	(0.09)	(0.01)
Operating Margin, as adjusted¹	20.9%	23.3%	20.4%		
Effective Tax Rate	37.5%	36.0%	35.2%		

¹ See Appendix for GAAP reconciliation

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

Operating Expenses

(\$ millions)	<u>Jun '10</u>	<u>Mar '10</u>	<u>% Chg</u>	<u>Jun '09</u>	<u>% Chg</u>
Compensation and benefits	\$ 268.8	\$ 267.3	1%	\$ 268.8	(0%)
Distribution and servicing	184.7	167.4	10%	172.5	7%
Communications and technology	40.0	42.2	(5%)	40.5	(1%)
Occupancy	33.7	25.5	32%	32.6	3%
Amortization of intangible assets	5.7	5.7	0%	5.6	2%
Other	38.5	57.5	(33%)	34.8	11%
Total Operating Expenses	<u>\$ 571.4</u>	<u>\$ 565.6</u>	1%	<u>\$ 554.8</u>	3%

- June 2010 quarter includes closed-end fund launch expenses
- March 2010 quarter includes:
 - Lower occupancy expenses related to lease reserve credit adjustment
 - Higher other expenses due to settlement reserve

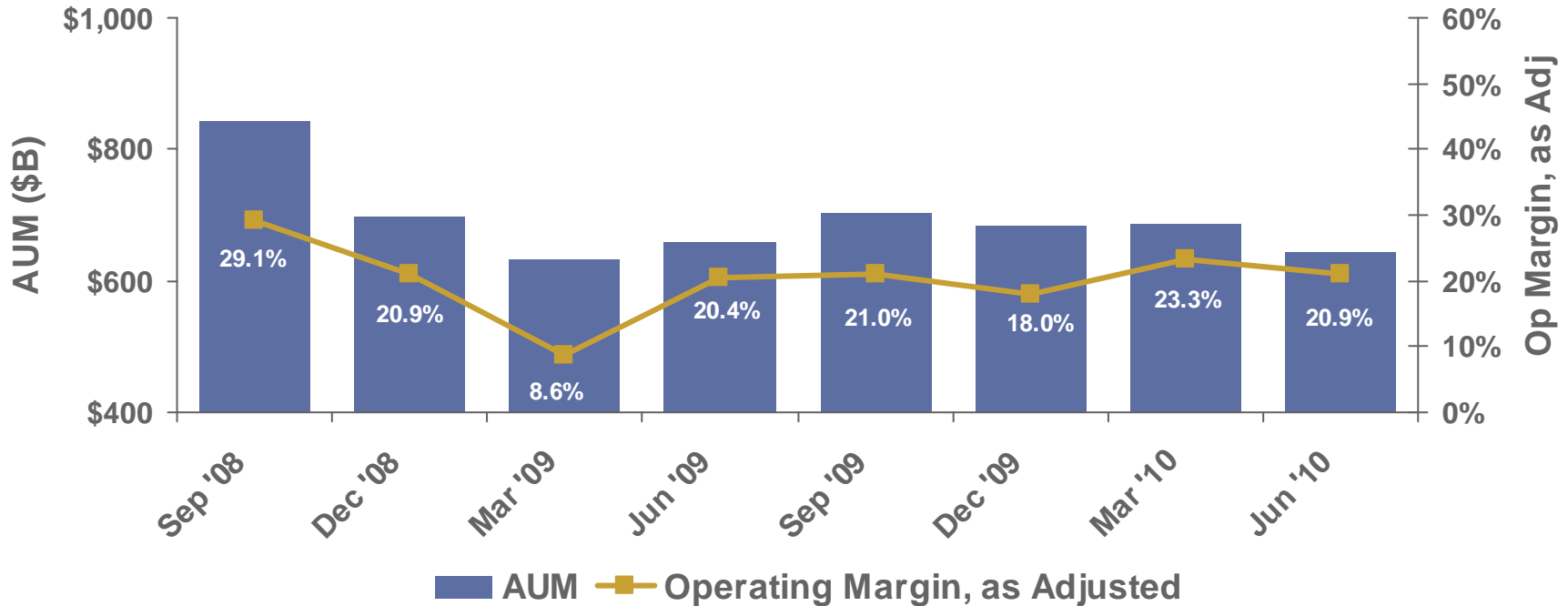
Compensation and Benefits

(\$ millions)	Jun 10	% of Net Rev. ¹	Mar 10	% of Net Rev.	\$ Change
Salary and incentives	\$ 224.3	46%	\$ 208.4	42%	\$ 15.9
Benefits and payroll taxes	<u>46.0</u>	<u>9%</u>	<u>46.1</u>	<u>9%</u>	<u>(0.1)</u>
Subtotal Compensation and benefits	270.3	55%	254.5	51%	15.8
Transition costs and severance	3.1	1%	1.6	0%	1.5
MTM deferred comp. and seed investments	<u>(4.6)</u>	<u>(1%)</u>	<u>11.2</u>	<u>2%</u>	<u>(15.8)</u>
Total Compensation and Benefits	<u>\$ 268.8</u>	55%	<u>\$ 267.3</u>	53%	<u>\$ 1.5</u>

- Increase in compensation and benefits driven by:
 - lower non-compensation expenses in revenue share affiliates
 - reduction in March 2010 quarter compensation due to settlement reserve
 - sales commissions related to closed-end fund launch
- Impact of the closed-end fund launch increased compensation and benefits as a percent of net revenues by 2%

¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



- Impact of closed-end fund launch expenses on June 2010 quarter Operating Margin, as adjusted was 2.9%

Note: See Appendix for GAAP reconciliation

Balance Sheet

(\$ millions)	Jun 10	Mar 10	Jun 09
Cash & cash equivalents	\$ 1,153	\$ 1,477	\$ 1,555
Intangibles and goodwill	5,202	5,218	5,127
Other assets	1,591	1,826	2,269
Consolidated Funds Assets	386	93	94
Total Assets	\$ 8,332	\$ 8,614	\$ 9,045
Debt	\$ 1,426	\$ 1,420	\$ 2,996
Other liabilities	989	1,321	1,305
Stockholders' equity	5,531	5,780	4,650
Consolidated Funds Liab. & Equity	386	93	94
Total Liabilities & Stockholders' Equity	\$ 8,332	\$ 8,614	\$ 9,045
Debt to Total Capital Ratio	20%	20%	39%

- Reduction in Cash & cash equivalents, as well as Stockholders' equity primarily due to stock repurchase totaling \$315M

Common Stock Repurchase

- Board announced \$1.0B share repurchase authorization on May 10, 2010
- Repurchased \$15M (509K shares) in an open market purchase on May 21st
- Entered into a \$300M Accelerated Share Repurchase agreement on May 24th:
 - We retired 9.2M shares on June 21st
 - May retire additional shares before September 30 based on weighted average price per share over the period until we finalize the ASR based on our counterparty trading activity

Streamlining our Business Model

- No change expected from targets
- Have made progress on transition plans
- Expect reductions in force to occur over an 18 month period in three stages, with the largest being June 30, 2011
- Expect \$130M - \$150M savings to be fully realized by fourth quarter FY 2012
- Restructuring and related costs are estimated between \$125M - \$135M, and transition support for affiliates remains at approximately \$75M
- Anticipate second quarter results will include approximately \$15M in transition related compensation costs

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.

Closing Comments

- Strategic Priorities
 - Streamline our business model
 - Partner with affiliates for franchise expansion
 - Enhance growth through lift outs, bolt-ons and new product investment
 - Effectively deploy capital

Appendix

Appendix - GAAP Reconciliation

Consolidated Statement of Income excluding Investment Vehicles¹

	Quarter Ended June 30, 2010			Quarter Ended March 31, 2010			Quarter Ended June 30, 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	\$ 576.4	\$ 0.8	\$ 577.2	\$ 573.9	\$ 0.5	\$ 574.4	\$ 524.6	\$ 0.8	\$ 525.4
Distribution and service fees	96.3	0.0	96.3	96.1	0.0	96.1	86.7	-	86.7
Other	1.4	-	1.4	1.4	-	1.4	1.8	-	1.8
Total operating revenues	674.2	0.8	674.9	671.4	0.5	671.9	613.1	0.8	613.9
Operating Expenses:									
Compensation and benefits	268.8	-	268.8	267.3	-	267.3	268.8	-	268.8
Distribution and servicing	184.7	(0.0)	184.7	167.4	(0.0)	167.4	172.5	(0.0)	172.4
Other	117.9	(0.5)	117.4	130.9	(0.2)	130.7	113.5	0.5	114.0
Total operating expenses	571.4	(0.5)	570.9	565.6	(0.2)	565.4	554.8	0.4	555.2
Operating Income	102.8	1.2	104.0	105.8	0.8	106.6	58.3	0.3	58.7
Other Non-Operating Income (Expense)									
Net interest income (expense)	(21.0)	-	(21.0)	(23.5)	(0.0)	(23.5)	(41.6)	-	(41.6)
Fund Support	-	-	-	-	-	-	17.6	-	17.6
Other income (expense)	(9.7)	1.7	(8.0)	19.4	(2.2)	17.2	46.4	(2.6)	43.8
Other non-operating income (expense)	(30.7)	1.7	(29.0)	(4.1)	(2.2)	(6.3)	22.4	(2.6)	19.8
Income Before Income Tax Provision	72.1	2.9	75.0	101.7	(1.4)	100.3	80.7	(2.2)	78.5
Income tax provision	27.1	-	27.1	36.6	-	36.6	28.4	-	28.4
Net Income	45.0	2.9	48.0	65.1	(1.4)	63.7	52.3	(2.2)	50.1
Less: Net income (loss) attributable to noncontrolling interests	(2.9)	2.9	0.1	1.5	(1.4)	0.0	2.3	(2.2)	0.0
Net Income Attributable to Legg Mason, Inc.	\$ 47.9	\$ -	\$ 47.9	\$ 63.6	\$ -	\$ 63.6	\$ 50.1	\$ -	\$ 50.1
Effective Income Tax Rate	37.5%			36.0%			35.2%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			36.1%			36.5%			36.2%

⁽¹⁾ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures.

Appendix – GAAP Reconciliation

Adjusted Income¹

(\$ millions, except per share amounts)	Quarters Ended		
	Jun 10	Mar 10	Jun 09
Net Income attributable to Legg Mason, Inc.	\$ 47.9	\$ 63.6	\$ 50.1
Plus (Less):			
Amortization of intangible assets	5.7	5.7	5.6
Deferred income taxes on intangible assets	33.8	33.1	35.2
Imputed interest on convertible debt	8.9	8.9	8.4
Net money fund support gains ²	-	-	(12.5)
Adjusted Income	<u>\$ 96.3</u>	<u>\$ 111.3</u>	<u>\$ 86.8</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.30	\$ 0.39	\$ 0.35
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets	0.21	0.20	0.24
Imputed interest on convertible debt	0.05	0.06	0.06
Net money fund support gains ²	-	-	(0.08)
Adjusted Income per Diluted Share	<u>\$ 0.60</u>	<u>\$ 0.69</u>	<u>\$ 0.61</u>

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

² Net of income taxes.

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

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

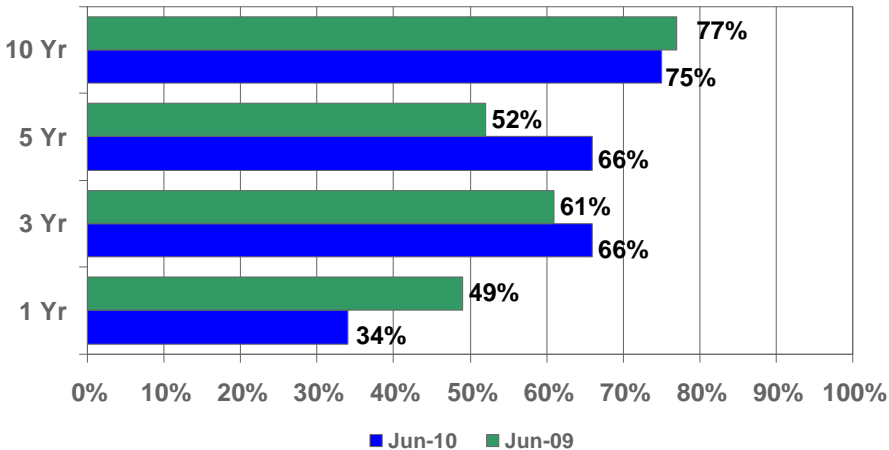
(\$ millions)	Quarters Ended								
	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
Operating Revenues, GAAP basis	\$ 1,054.0	\$ 966.1	\$ 720.0	\$ 617.2	\$ 613.1	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	-	-	-	1.2	0.8	0.6	0.9	0.5	0.8
Distribution and servicing expense excluding consolidated investment vehicles	(307.9)	(279.0)	(202.5)	(180.6)	(172.4)	(174.4)	(177.6)	(167.4)	(184.7)
Operating Revenues, as adjusted	<u>\$ 746.2</u>	<u>\$ 687.2</u>	<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>
Operating Income (Loss)	\$ 228.9	\$ 220.2	\$ (1,073.0)	\$ (45.3)	\$ 58.3	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	(5.1)	(19.9)	(44.0)	(1.9)	31.4	24.1	12.6	11.2	(4.6)
Transition-related costs	-	-	-	-	-	-	-	-	3.2
Operating income and expenses of consolidated investment vehicles	-	-	-	1.9	0.3	0.2	0.8	0.8	1.2
Impairment charges	-	-	1,225.1	82.9	-	-	-	-	-
Operating Income, as adjusted	<u>\$ 223.8</u>	<u>\$ 200.3</u>	<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>
Operating margin, GAAP basis	21.7%	22.8%	-149.0%	-7.3%	9.5%	11.8%	11.5%	15.8%	15.2%
Operating margin, as adjusted	30.0%	29.1%	20.9%	8.6%	20.4%	21.0%	18.0%	23.3%	20.9%

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

Appendix - Long-Term Performance by Asset Class

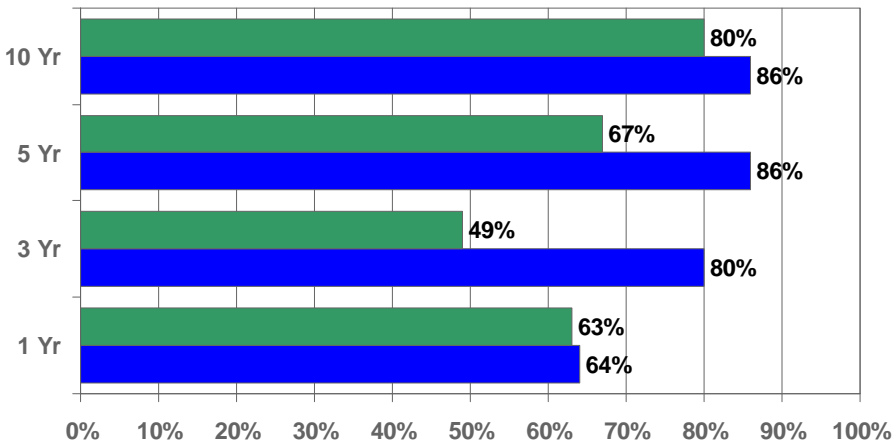
% of Long-Term U.S. Fund Assets beating Lipper Category Average¹

Equity Funds



- 54% of Legg Mason's U.S. equity mutual fund assets were rated 4 or 5 stars by Morningstar at June 30, 2010.
- Major Drivers (6/09-6/10): LM CBA Appreciation (\$3.8B), Royce Premier (\$5.2B), and Royce Total Return (3.9B) underperformed their respective categories for the 1-yr period; LM CBA Dividend Strategy (\$1.6B) outperformed for the 5-yr period.

Fixed Income Funds



- 50% of Legg Mason's U.S. taxable fixed income and 68% of Legg Mason's municipal mutual fund assets were rated 4 or 5 stars by Morningstar at June 30, 2010.
- Major Drivers (6/09-6/10): WA Core Plus FI and I (\$6.1B) and WA Core I (\$2.1B) outperformed for the 3-yr period; WA Core I (\$2.1B) and LM WA Short Duration Muni C (1.1B) outperformed for the 5-yr period, and LM WA Intermediate Muni A (\$1.1B) outperformed for the 10-yr period.

¹As of June 30, 2010, includes open-end, closed-end, and variable annuity funds. Sources: Lipper Inc. and Morningstar