



Legg Mason, Inc.

Third Quarter FY 2011 Review

January 26, 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, 2010 and in the Company’s quarterly reports on Form 10-Q.

Business Developments

- 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
- Adjusted Income¹ \$110M, \$0.73 per diluted share
- Continued improvement in operating margin to 13.4% and operating margin, as adjusted to 24.3%
- Performance of our long-term U.S. mutual funds improved for the 1, 3 and 5 year time periods vs. last quarter
- Streamlining our business
 - Executive management team realignment
 - First phase of targeted cost reductions completed
- Successful Western Asset High Yield Defined Opportunity closed-end fund launch
 - Raised \$444M
 - #1 issuer of closed-end funds during 2010
- Continued share repurchase program, repurchased 1.2M shares in December quarter
 - Shares repurchased and retired since program inception of 12.6M

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**

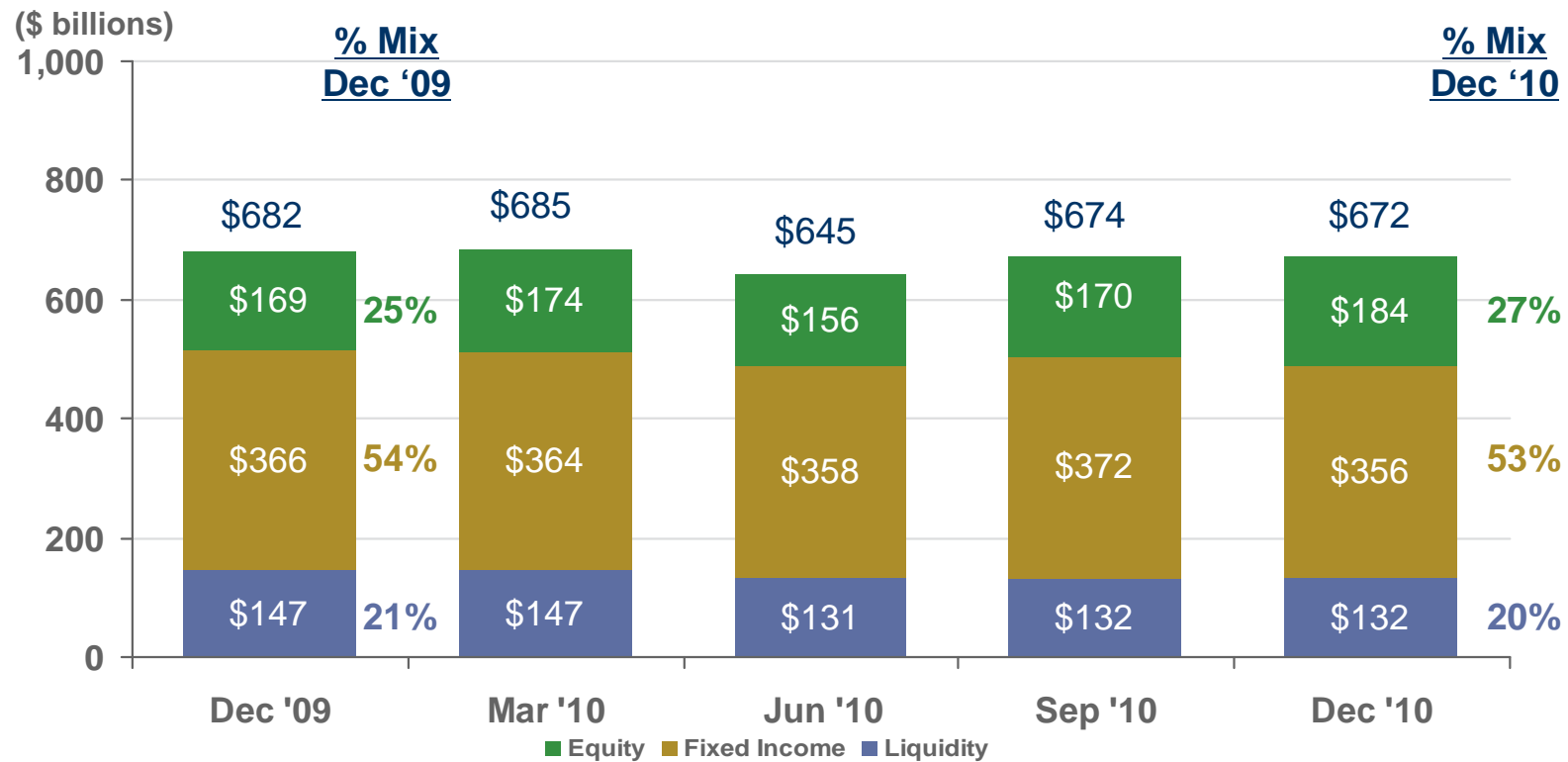
Peter H. Nachtwey

**CHIEF
FINANCIAL
OFFICER**

Thomas P. Lemke

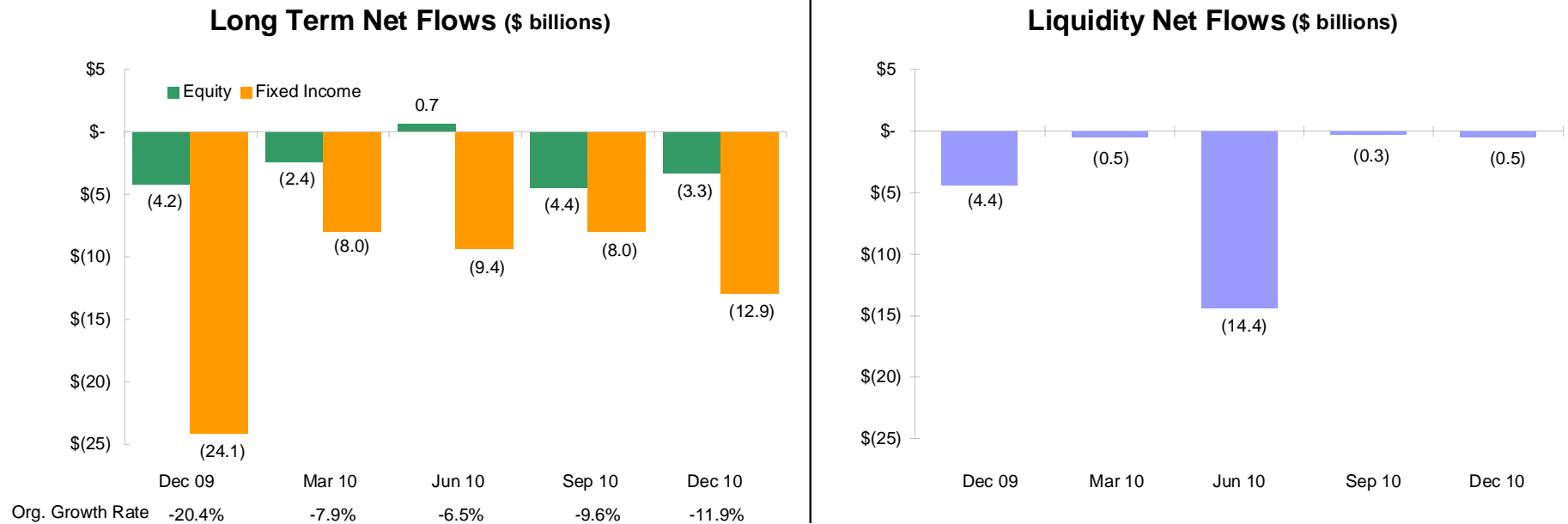
**GENERAL
COUNSEL**

Assets Under Management by Asset Class



- Equity AUM increased 8% to \$184B
- Change in the mix of AUM increased advisory fee yield to 34.8 bps in Dec 10 from 33.8 bps in Sep 10 and 32.0 bps in Dec 09

Net Flows



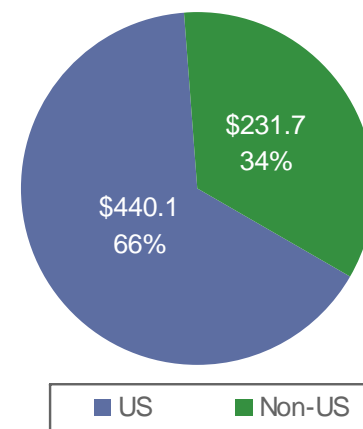
- Fixed income outflows have decreased 47% or \$11.2B from the prior year quarter. Approximately \$4.1B or 32% of Dec 10 quarter net outflows are related to two relationships
- Equity outflows compared to the prior quarter are down \$1.1B or 26%

Assets Under Management (\$ billions)

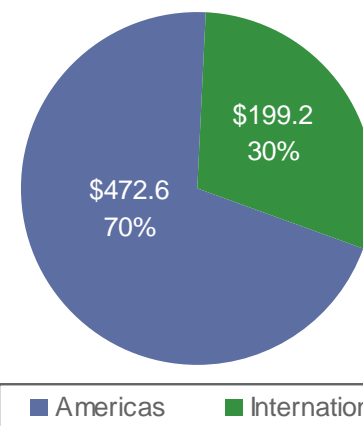
AUM by Affiliate ¹	Dec '10 AUM	Sep '10 AUM	Dec '09 AUM
Western Asset	\$ 453.6	\$ 469.1	\$ 481.4
Permal Group	19.6	18.5	17.9
ClearBridge	55.7	51.3	53.5
Royce & Associates	39.5	34.0	30.6
LM Capital Mgmt	15.8	15.5	17.2
Batterymarch	23.3	22.0	20.3
Brandywine	32.0	31.4	28.9

% Change vs	
Sep '10	Dec '09
(3)%	(6)%
6 %	10 %
9 %	4 %
16 %	29%
2 %	(8)%
6 %	14 %
2 %	11 %

AUM by Client Domicile



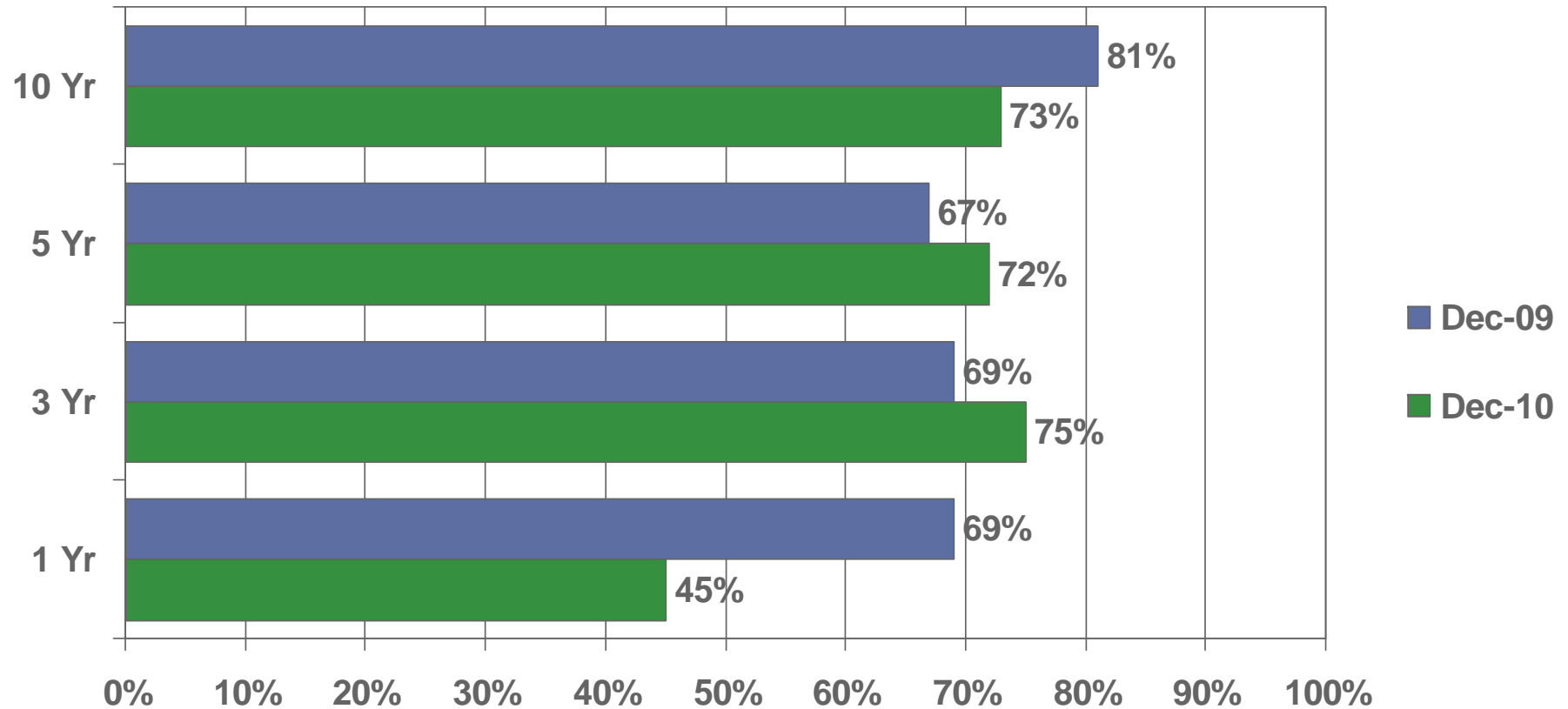
AUM by Division



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

Long-Term Fund Performance

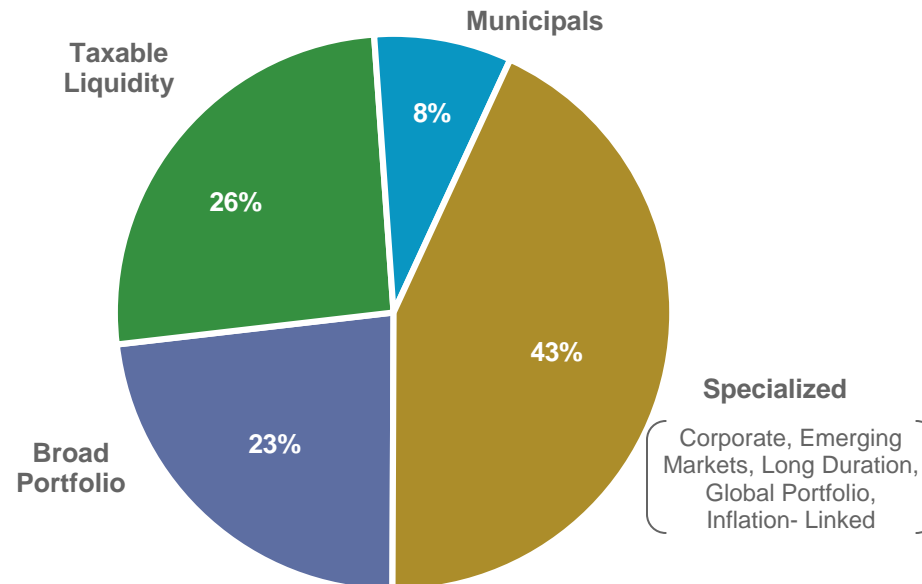
% of Long-Term U.S. Fund Assets beating Lipper Category Average¹



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.

Western Update

**Total AUM by
Mandate: \$454B**



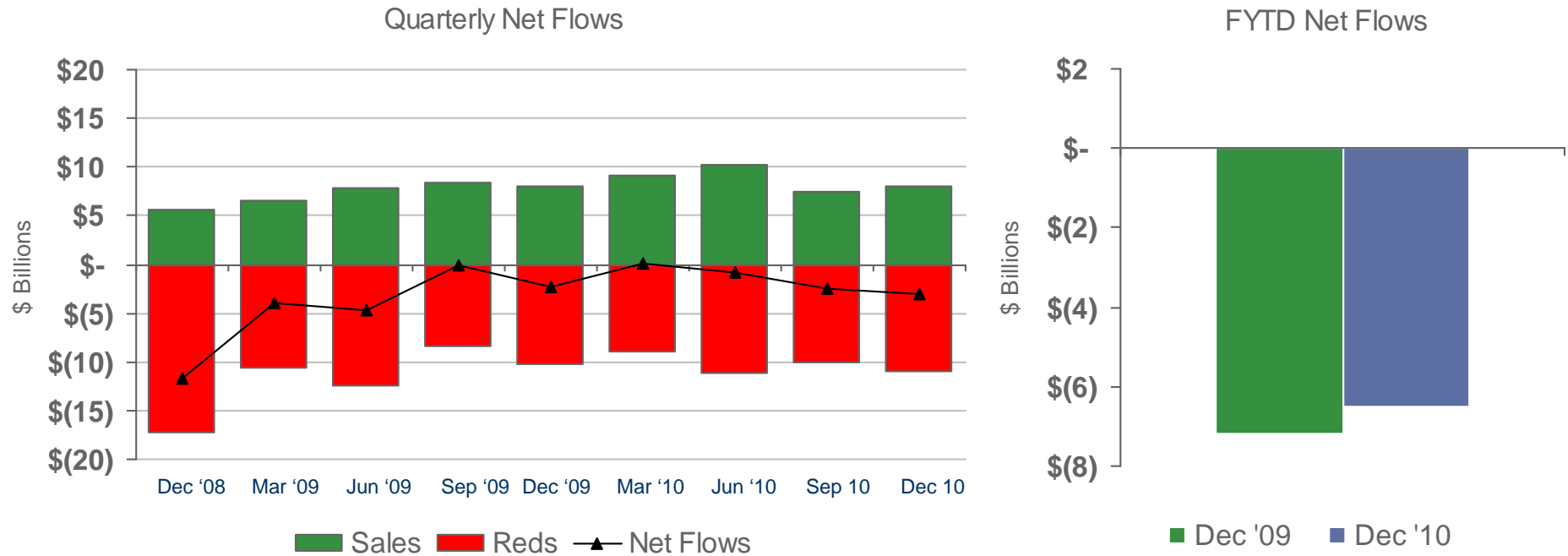
Headwinds

- Expected legacy, low yielding redemptions
- Muni fund redemptions
- Rebalancing
- Seasonality, though much reduced

Incremental Growth

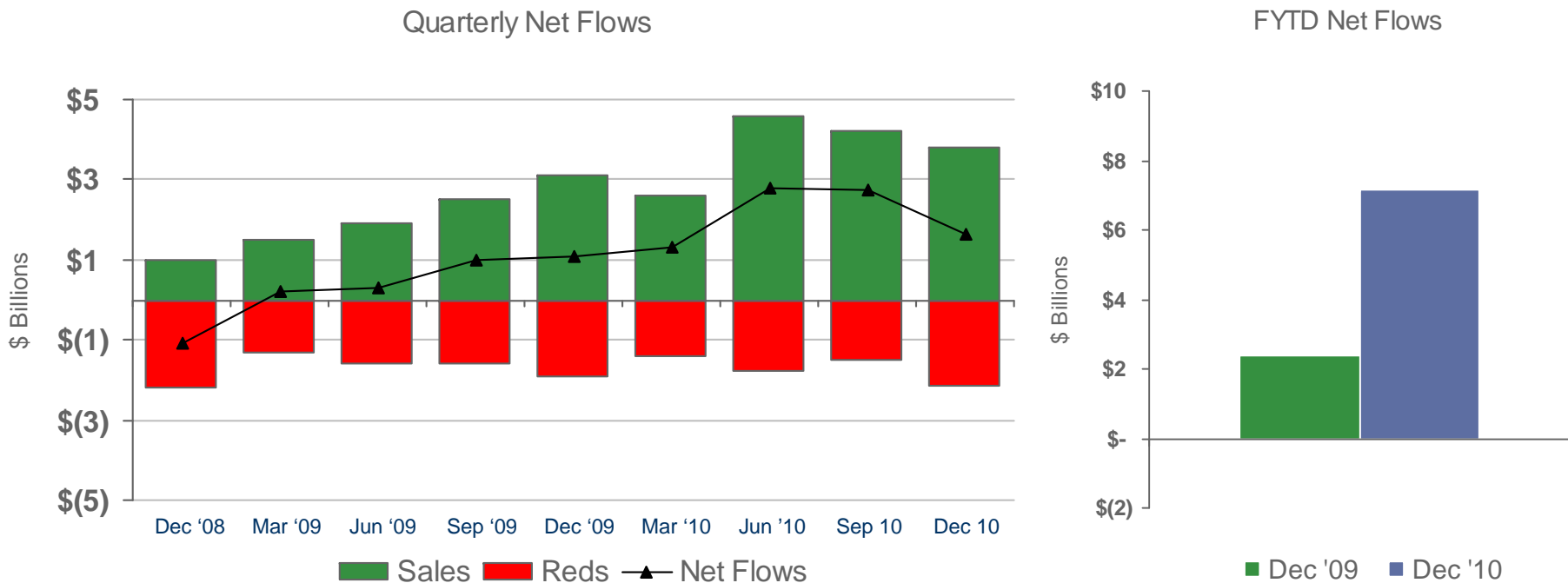
- Emerging local currency
- Global multi-sector
- Inflation-linked
- Global corporate

Americas Distribution Long-Term Flow Trends



- Gross sales increased 6% over prior quarter to \$7.9B, including \$444M related to the closed-end fund launch
- Increase in net outflows driven by a \$1.4B swing in municipal fund flows versus the prior quarter
- Continued trend of further diversified retail channel sales between National Broker Dealers and Independent Advisory Dealers

International Distribution Long-Term Flow Trends



- Eight straight quarters of positive net flows, primarily driven by Japan and Europe
- Current quarter reduction in net flows driven by lower sales activity in Australia and Japan, coupled with outflows in Europe related to a handful of quasi-institutional clients
- Compared to Dec 09 quarter net flows are up 45%

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

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 Sector Strategy 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 Highlights Third Quarter FY 2011

- Net Income, \$62M, \$0.41 per diluted share
- In third quarter FY 2011
 - 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 incremental transition-related costs of \$12M and closed-end fund launch costs totaling \$10M
 - Operating income \$97M, operating margin 13.4%
 - Adjusted income¹ \$110M or \$0.73 per diluted share
 - Operating margin, as adjusted¹, 24.3%
- Continued share repurchase reduced average diluted shares outstanding to 151.0M for the quarter

Operating Results Third Quarter FY 2011

(\$ millions, except per share amounts)	Dec 10 Qtr	Sep 10 Qtr	Dec 09 Qtr	\$ Change vs.	
				Sep 10	Dec 09
Operating Revenues	\$ 721.9	\$ 674.8	\$ 690.5	\$ 47.1	\$ 31.4
Operating Expenses	624.9	586.9	611.3	38.0	13.6
Operating Income	97.0	87.9	79.1	9.1	17.9
Net Income	61.6	75.3	44.9	(13.7)	16.7
Diluted EPS	0.41	0.50	0.28	(0.09)	0.13
Adjusted Income¹	110.3	115.0	93.2	(4.7)	17.1
Adjusted Income per diluted share	0.73	0.76	0.57	(0.03)	0.16
Operating Margin, as adjusted¹	24.3%	24.1%	18.0%		
Effective Tax Rate	38.8%	25.9% ²	36.0%		

1 See Appendix for GAAP reconciliation

2 Sep 10 includes an \$8.9M credit related to a United Kingdom tax benefit

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

Operating Expenses

(\$ millions)

	Dec '10	Sep '10	% Chg	Dec '09	% Chg
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%

- Increase in distribution and servicing expenses partially driven by closed-end fund launch in Dec 10 quarter
- Dec 10 quarter includes transition-related costs of \$24.0M including occupancy expenses of approximately \$4.3M

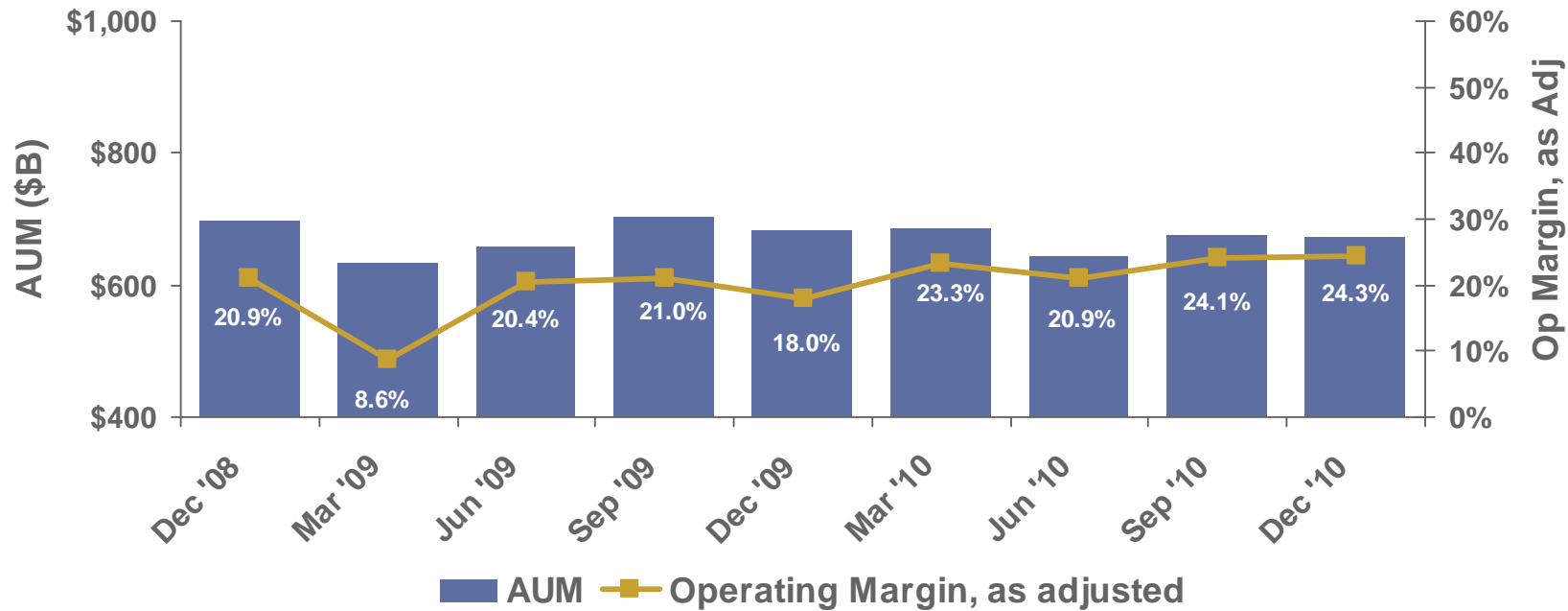
Compensation and Benefits

(\$ millions)	Dec 10	% of Net Rev. ¹	Sep 10	% of Net Rev.	\$ Change
Salary and incentives	\$ 232.3	43%	\$ 217.3	43%	\$ 15.0
Benefits and payroll taxes	<u>48.4</u>	<u>9%</u>	<u>44.5</u>	<u>8%</u>	<u>3.9</u>
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	<u>8.5</u>	<u>2%</u>	<u>22.1</u>	<u>5%</u>	<u>(13.6)</u>
Total Compensation and Benefits	<u>\$ 309.2</u>	<u>58%</u>	<u>\$ 295.9</u>	<u>58%</u>	<u>13.3</u>

- Increase in compensation and benefits driven by higher revenues
- Impact of closed-end fund launch on compensation and benefits ratio was 1.0%

¹ Net revenue is equal to operating revenues, as adjusted

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%

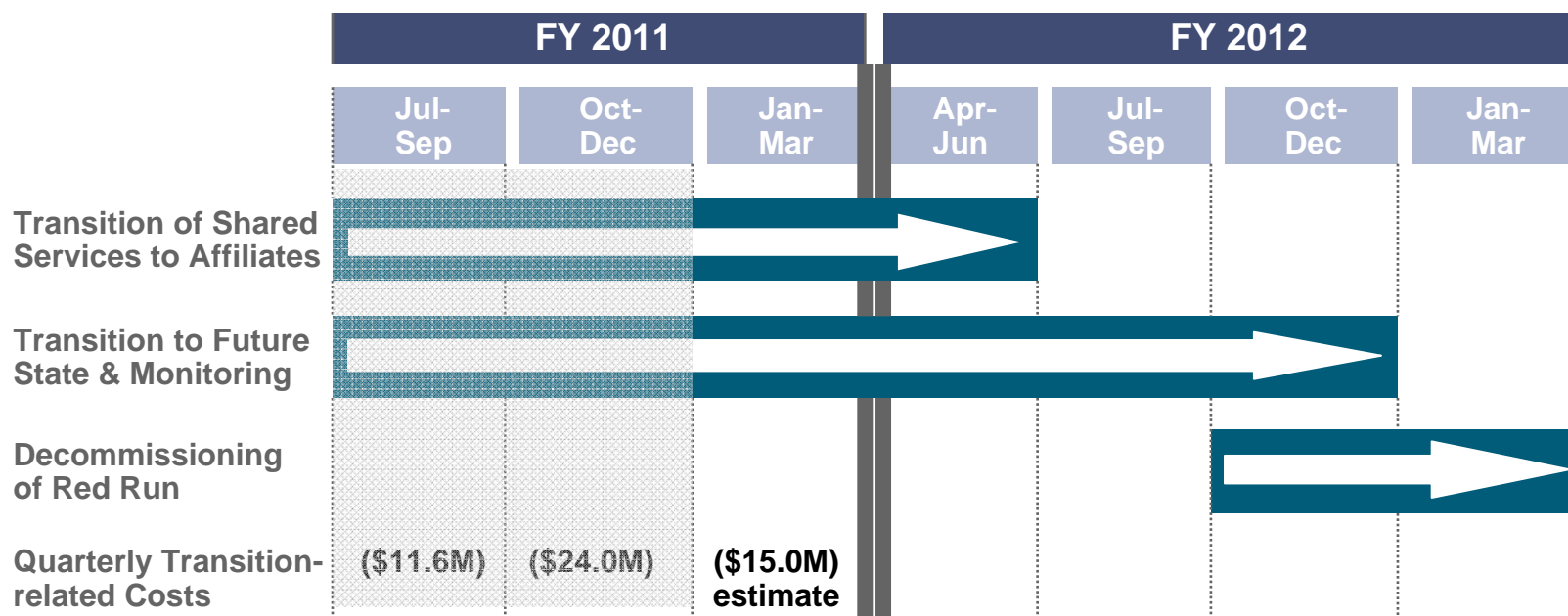
Update on Streamlining our Business Model

- December 31, 2010 marked six months into streamlining initiative
 - Transition-related expenses incurred to date of approximately \$39M
 - Run rate 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 \$125M - \$135M
- Announced change in Executive Management organization structure
- Fourth quarter of FY 2011 results will include approximately \$15M in transition-related 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

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

Closing Comments

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**

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	<u>\$ 110.3</u>	<u>\$ 115.0</u>	<u>\$ 93.2</u>
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	<u>\$ 0.73</u>	<u>\$ 0.76</u>	<u>\$ 0.57</u>

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 – \$1B Board Authorized Share Repurchase

- 12.6M shares have been repurchased 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 quarter

- \$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