

Third Quarter Review January 27, 2012

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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.

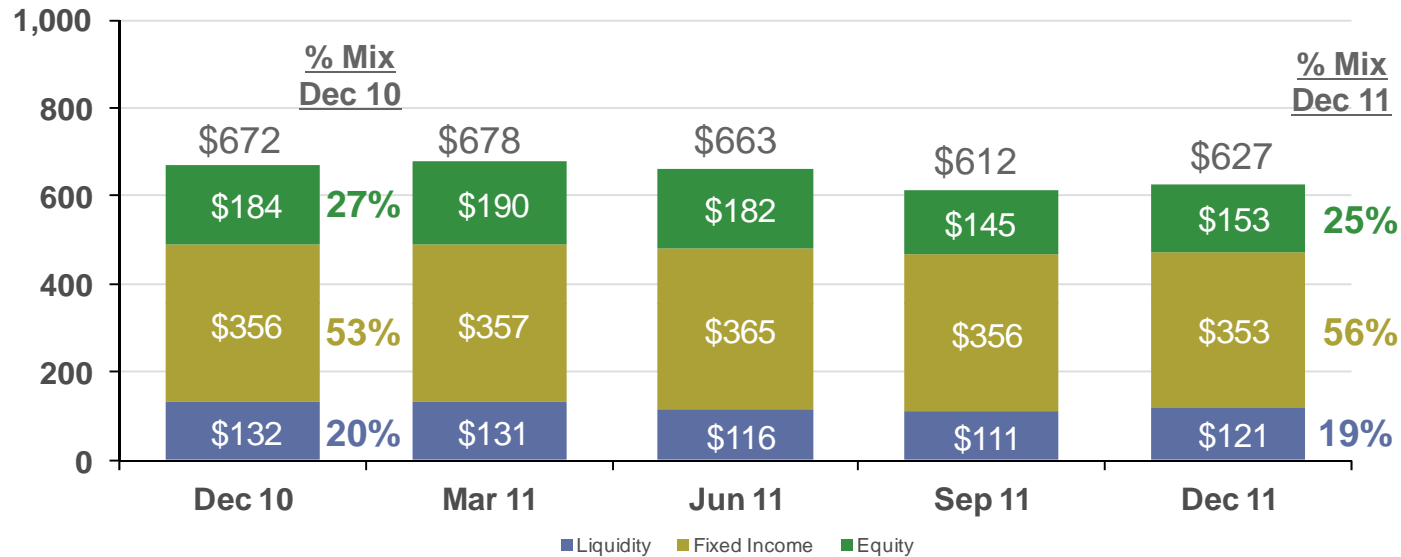
For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2011 and in the Company’s quarterly reports on Form 10-Q.

Third Quarter Highlights

- Net Income \$28.1M or \$0.20 per diluted share
 - Results primarily impacted by the market driven decline in average AUM and reduced performance fees
 - Transition-related costs of \$42M or \$0.21 per diluted share
- Adjusted Income \$76.8M or \$0.55 per diluted share
- Completed streamlining initiative on time and on budget
 - \$26M in quarterly savings, \$35M or \$140M annual savings in FQ4
 - Transition-related costs to date of \$126M (\$3M additional costs in FQ4)
 - Corporate headcount reductions of 33%
- Cash position over \$1.2B
- Long term outflows improved 18% from the September quarter

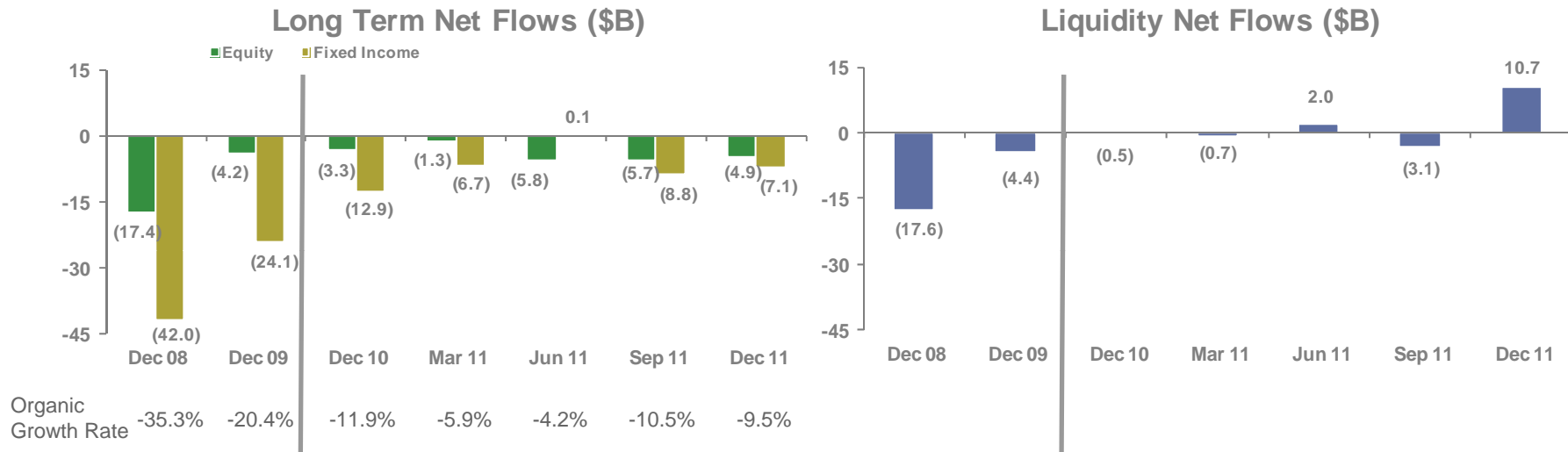
Assets Under Management by Asset Class

(\$ billions)



- Market appreciation \$17.6B, including FX impact of \$0.3B
 - Equity and Fixed Income AUM market appreciation \$13.3B and \$4.2B, respectively
- Average AUM of \$622B down \$21B or 3% compared to prior quarter

Net Flows



- Long term outflows improved from prior quarter
- Fixed income outflows improved from September quarter and were significantly better than the three prior December quarters

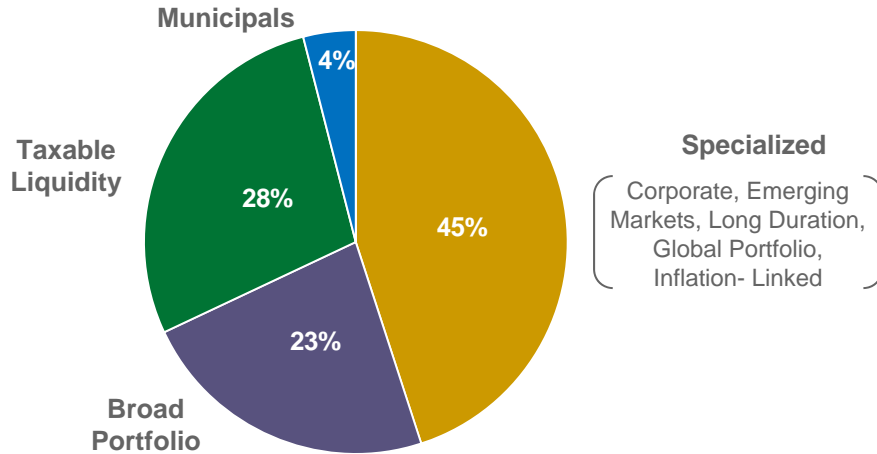
Assets Under Management (\$ billions)

AUM by Affiliate ¹	Dec 11 AUM	Sep 11 AUM	Dec 10 AUM	% Change vs.	
				Sep 11	Dec 10
Western Asset	\$ 442.0	\$ 433.4	\$ 453.6	2 %	(3) %
Royce & Associates	35.9	33.3	39.5	8 %	(9) %
Permal Group	17.8	18.7	19.6	(5) %	(9) %
ClearBridge	51.4	47.4	55.7	8 %	(8) %
Batterymarch	17.6	16.8	23.3	4 %	(25) %
Brandywine	33.1	31.2	32.0	6 %	4 %
LM Capital Mgmt	8.4	8.7	15.8	(3) %	(47) %

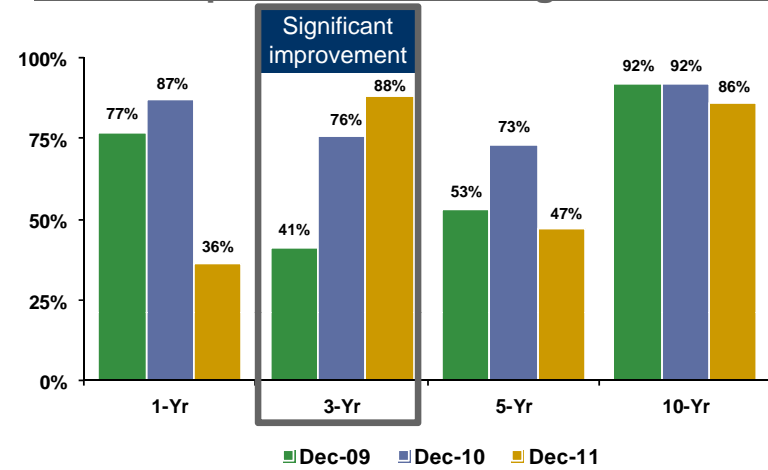
¹ Primary affiliates ordered by contribution to fiscal year to date 2012 pre-tax earnings

Western Update

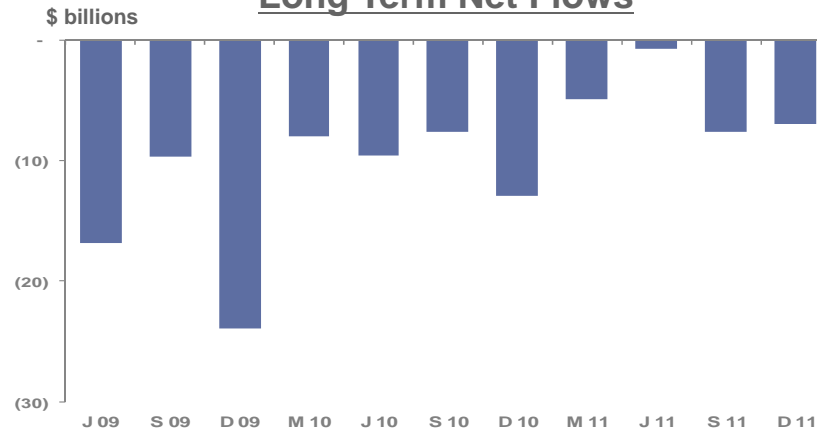
Total AUM by Mandate: \$442B



% of Composite AUM Beating Benchmark¹



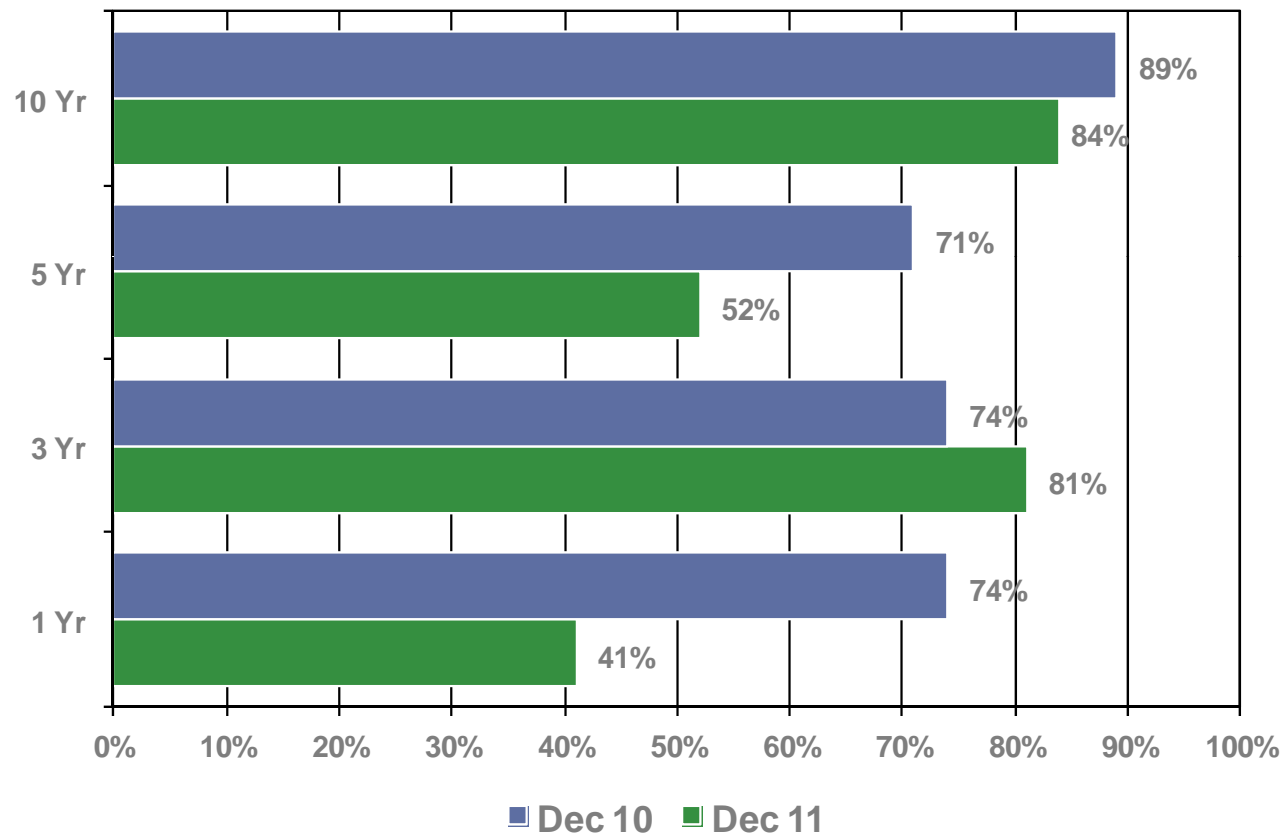
Long Term Net Flows



¹ Western marketed composite assets including liquidity

Marketed Composite Performance¹

% of AUM beating Benchmark

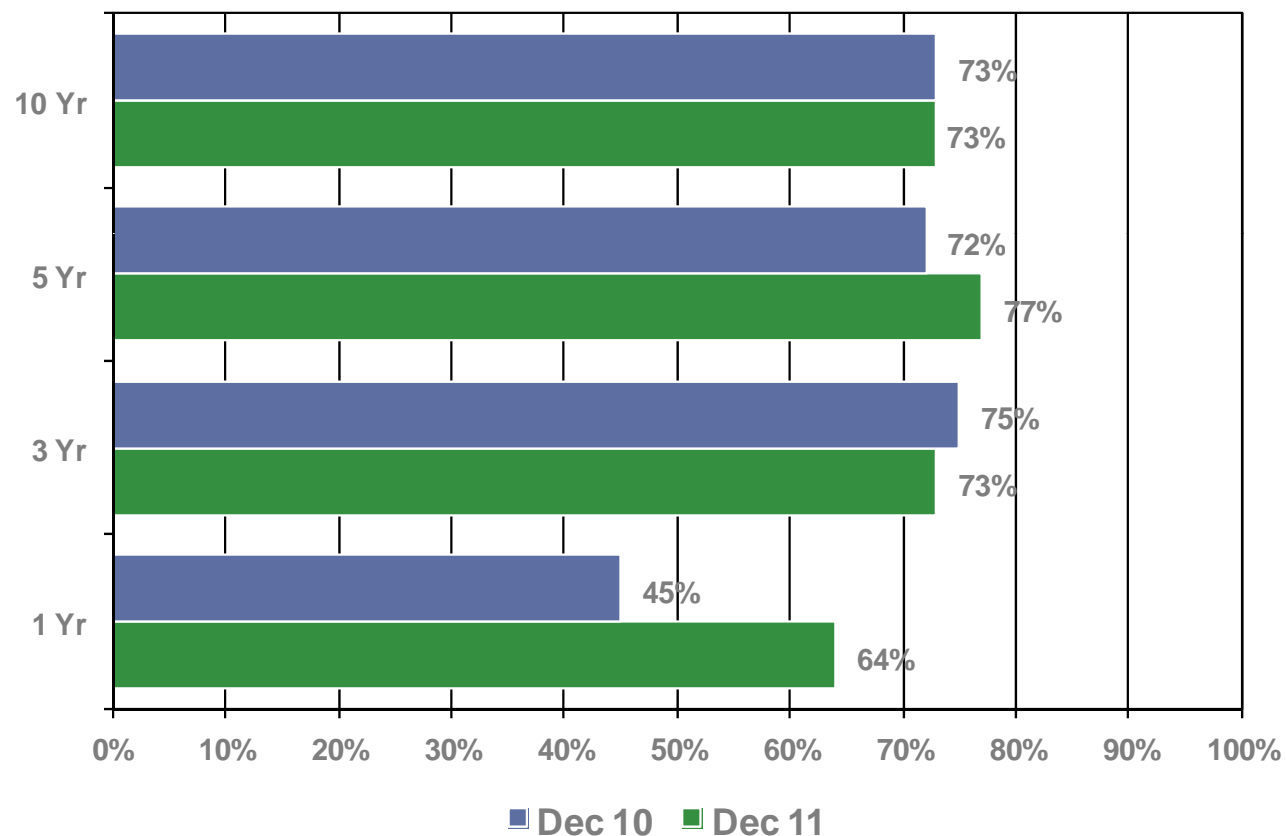


¹ Represents 90% of total AUM as of December 31, 2011. Includes liquidity.

Benchmark source: Lipper and Morningstar

Long-Term Fund Performance

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



¹ As of December 31, 2011, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc. and Morningstar
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.

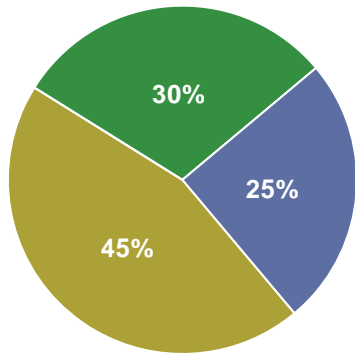
Global Distribution – Overview

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

Total AUM: \$213 Billion

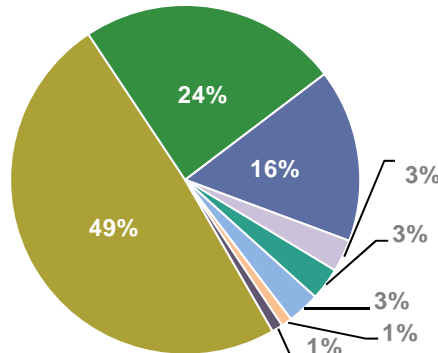
Locations: Offices in the US, Asia, Europe, Australia, Japan and Canada

AUM by Channel



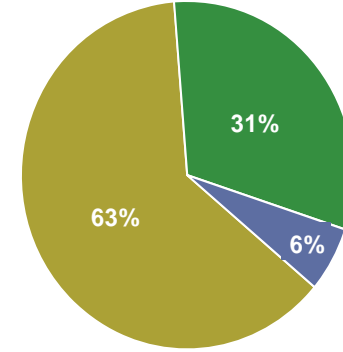
■ US Retail ■ US Individual ■ International

AUM by Affiliate



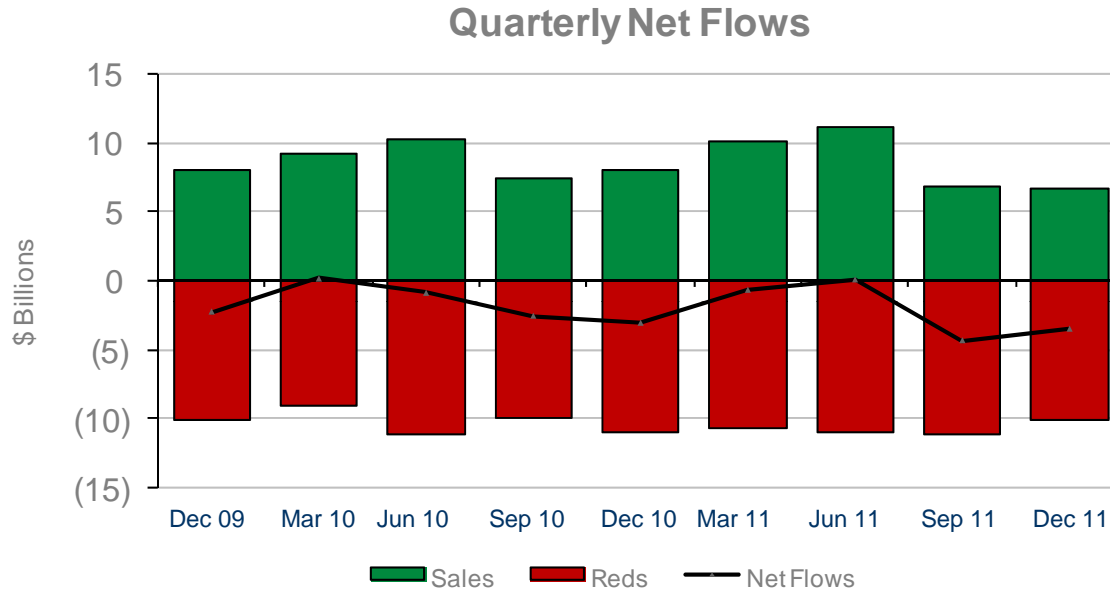
■ WAM ■ CBA ■ Royce ■ LCMC
 ■ BFM ■ BGIM ■ LM Glb Eq ■ Other

AUM by Product

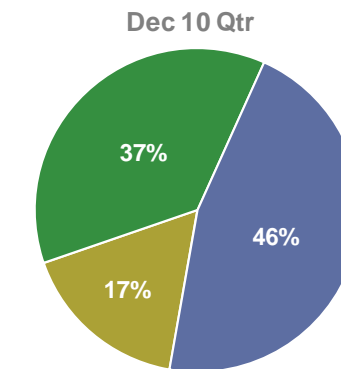
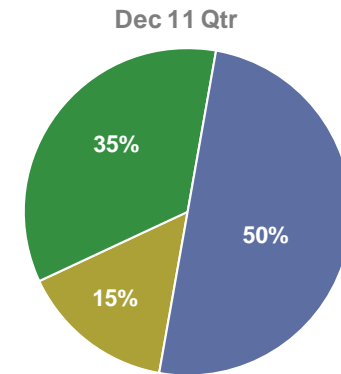


■ Funds ■ SMA/Sep Accts ■ Closed End

US Distribution Long-Term Flow Trends



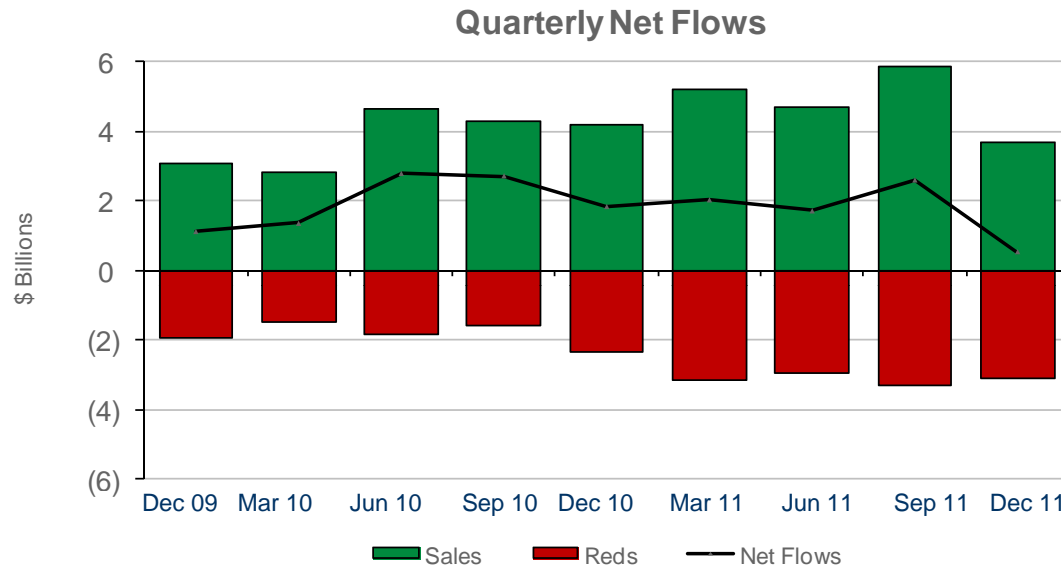
Gross Sales by Channel



- Gross sales inline with prior quarter
- Redemptions improved and redemption rates compared favorably to the asset management industry

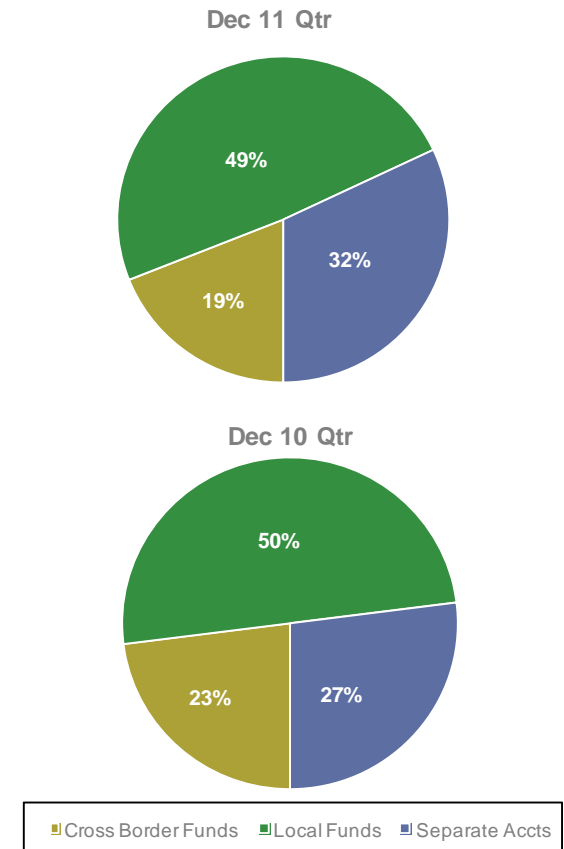
Represents sales, redemptions and net flows by Legg Mason's Global Distribution – US operations

International Distribution Long-Term Flow Trends



- Twelve consecutive quarters of positive net flows
- Lower net flows reflects a decline in sales of sector specific fixed income mandates in Japan

Long Term AUM by Product



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

Financial Highlights Third Quarter FY 2012

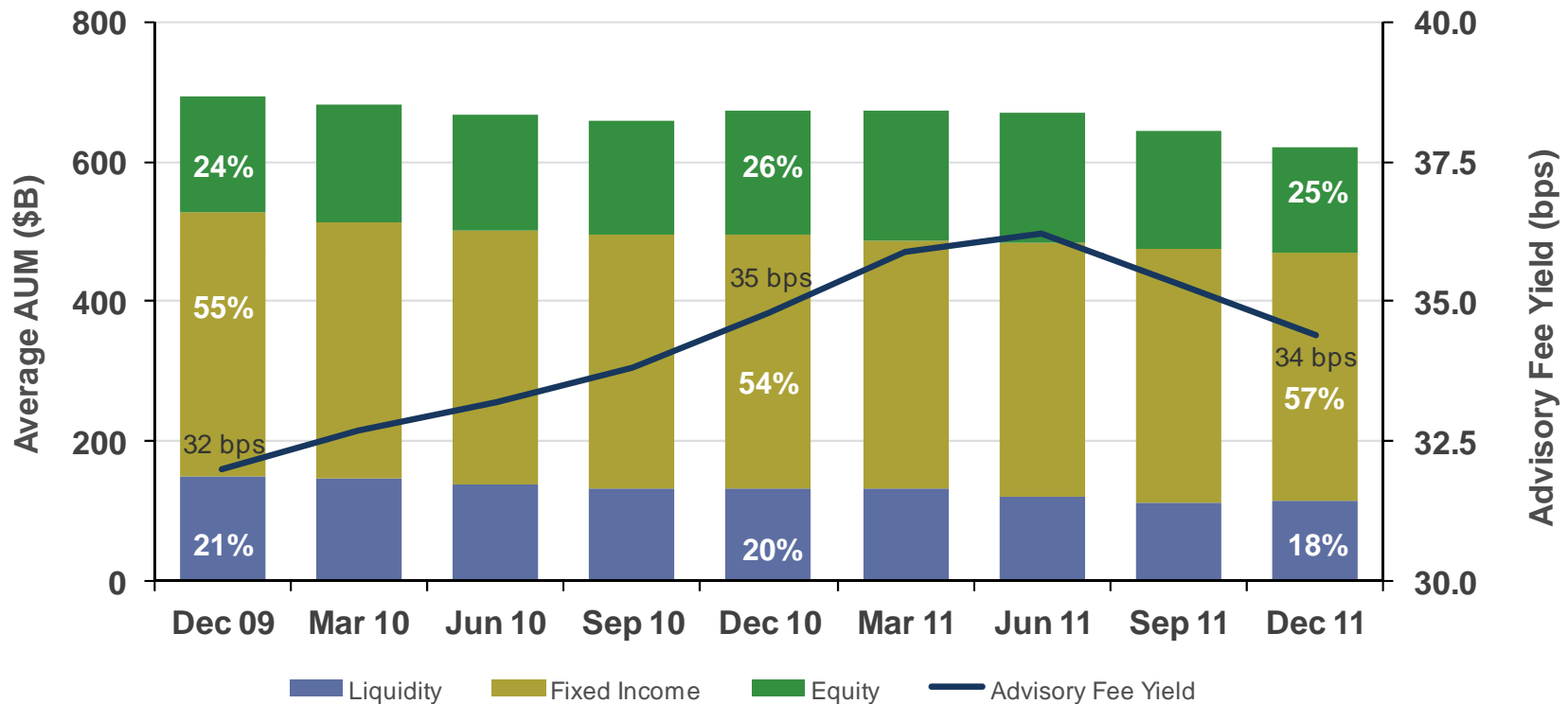
- Net Income \$28.1M, \$0.20 per diluted share
- Average AUM of \$622B, down \$21B from September quarter
- Operating revenues \$627M, down \$43M or 6% from prior quarter
 - Decrease primarily reflects impact of lower average equity AUM
- Operating expenses of \$568M increased \$5M or 1% from prior quarter
 - Increase primarily driven by:
 - Higher occupancy costs related to fixed asset write-offs due to streamlining
 - MTM of deferred compensation and benefits and seed investments up \$16M, which are offset in other non-operating income
 - Partially offset by:
 - Lower distribution and servicing, and compensation and benefits expense, due to lower revenues
- Operating income \$59M, operating margin 9.5%
- Adjusted income¹ \$77M or \$0.55 per diluted share
- Operating income, as adjusted¹ \$104M
- Operating margin, as adjusted¹, 21.7%

Operating Results Third Quarter FY 2012

(\$ millions, except per share amounts)	Dec 11 Qtr	Sep 11 Qtr	Dec 10 Qtr	\$ Change vs.	
				Sep 11	Dec 10
Operating Revenues	\$ 627.0	\$ 669.9	\$ 721.9	\$ (42.9)	\$ (94.9)
Operating Expenses	567.7	563.0	624.9	4.7	(57.2)
Operating Income	59.3	106.9	97.0	(47.6)	(37.7)
Net Income	28.1	56.7	61.6	(28.6)	(33.5)
Diluted EPS	0.20	0.39	0.41	(0.19)	(0.21)
Adjusted Income¹	76.8	87.6	110.3	(10.8)	(33.5)
Adjusted Income per diluted share	0.55	0.61	0.73	(0.06)	(0.18)
Operating Margin, as adjusted¹	21.7%	21.3%	24.3%		
Effective Tax Rate GAAP	26.4%	(2.9)%	38.8%		
Effective Tax Rate ex CIVs	30.9%	(2.9)%	35.4%		

¹ See Appendix for GAAP reconciliation

Advisory Fee Yield / Average AUM



- Advisory fee yield down 1bp from both the prior quarter and prior year quarter

Operating Expenses

(\$ millions)	Dec 11	Sep 11	% Chg	Dec 10	% Chg
Compensation and benefits	\$ 263.2	\$ 270.0	(3%)	\$ 309.2	(15%)
Distribution and servicing	148.3	160.4	(8%)	187.4	(21%)
Communications and technology	43.5	41.6	5%	39.4	10%
Occupancy	56.4	35.7	58%	37.3	51%
Amortization of intangible assets	4.9	5.5	(11%)	5.8	(16%)
Other	51.4	49.8	3%	45.8	12%
Total Operating Expenses	<u>\$ 567.7</u>	<u>\$ 563.0</u>	1%	<u>\$ 624.9</u>	(9%)

- Decrease in compensation and benefits and lower distribution and servicing driven by lower average AUM and revenues
- Increased technology costs driven by transition-related costs and consulting fees
- Occupancy expenses reflects increase in transition-related costs of \$28M, partially offset by lease reserve credits of \$5M
- Other expenses increased due to transition-related costs

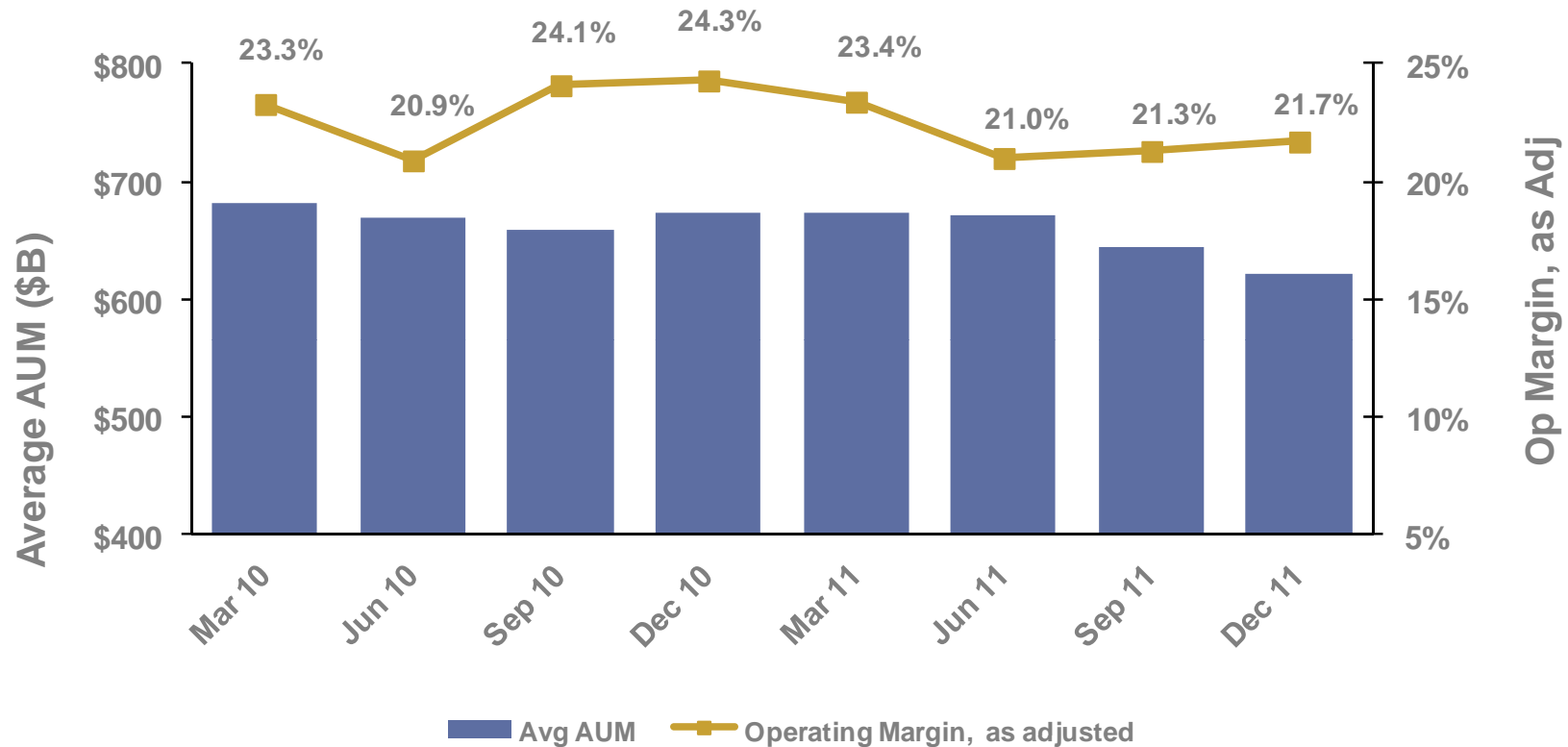
Compensation and Benefits

(\$ millions)	Dec 11	% of Net Rev. ¹	Sep 11	% of Net Rev.	\$ Change
Salary and incentives	\$ 206.6	43%	\$ 226.9	44%	\$ (20.3)
Benefits and payroll taxes	44.0	9%	44.7	9%	(0.7)
Subtotal Compensation and benefits	250.6	52%	271.6	53%	(21.0)
Transition-related costs and severance	10.9	2%	12.6	3%	(1.7)
MTM deferred comp. and seed investments	1.7	0%	(14.2)	(3%)	15.9
Total Compensation and Benefits	\$ 263.2	55%	\$ 270.0	53%	(6.8)

- Total change in compensation and benefits largely reflects impact of lower revenues partially offset by mark to market gains on deferred compensation and seed investments
- Compensation ratio reduced by approximately 1% due to higher non-compensation-related expenses in revenue share affiliates that are offset in compensation

¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



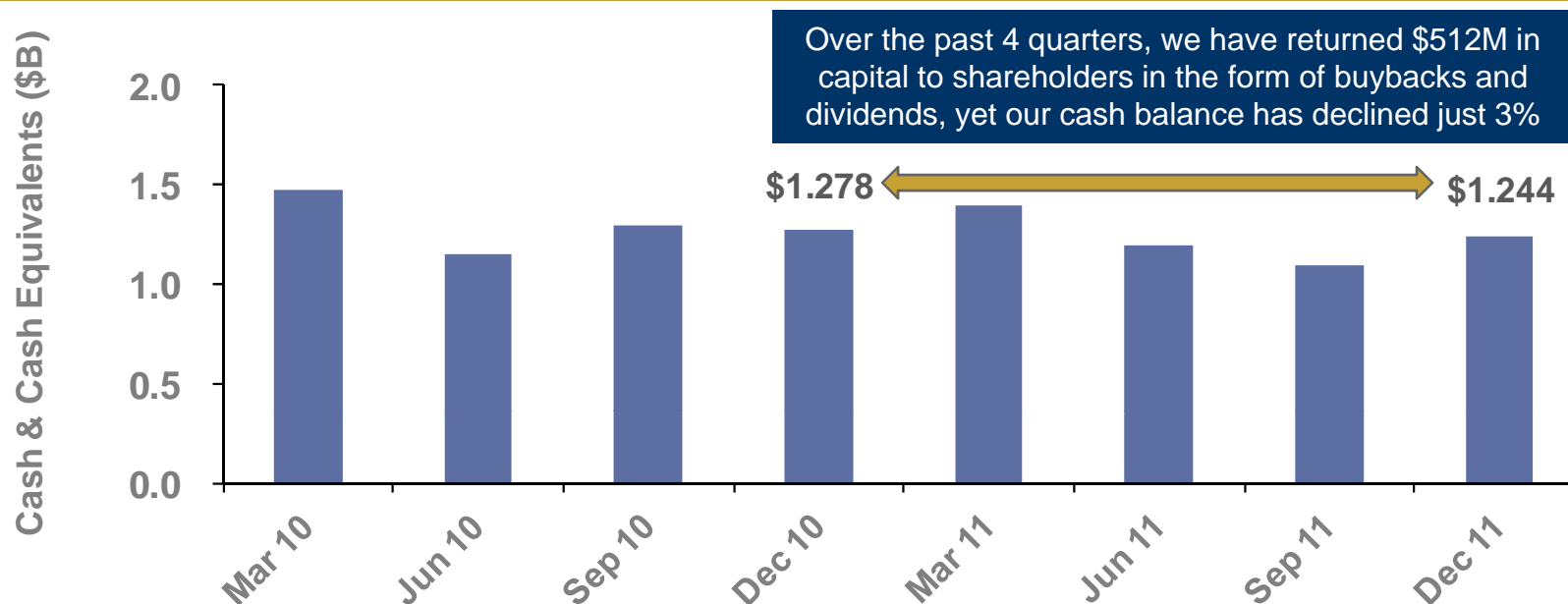
- Operating margin, as adjusted, up slightly over prior quarter due to lower corporate operating costs partially offset by impact of lower revenues

Update on Streamlining our Business Model

- Costs and savings related to streamlining initiatives complete
- Cost savings
 - Third quarter cost savings total \$26M
 - FQ4 savings of \$35M or \$140M per annum
- Transition-related costs
 - Transition-related expenses of \$42M in FQ3
 - Transition-related expenses to date of \$126M
 - Expect \$3M of additional transition-related expenses in FQ4
- FQ4 EPS expected to be in range of \$0.42 - \$0.52¹

¹Projections based on following assumptions: investment performance remains consistent across key affiliates, generally stable AUM levels, moderate market growth from current levels, performance fees in line with the December quarter, no unanticipated material expenses, and diluted shares outstanding remain relatively unchanged from current quarter.

Cash Balance and Share Repurchase History



Shares Repurchased	Transaction
14.6M	\$445M in share repurchases - FY 2011
13.6M	\$400M in share repurchase - FYTD 2012
28.2M	Total shares repurchased represent \$845M of \$1B Board authorization

Strategy to Deliver Value

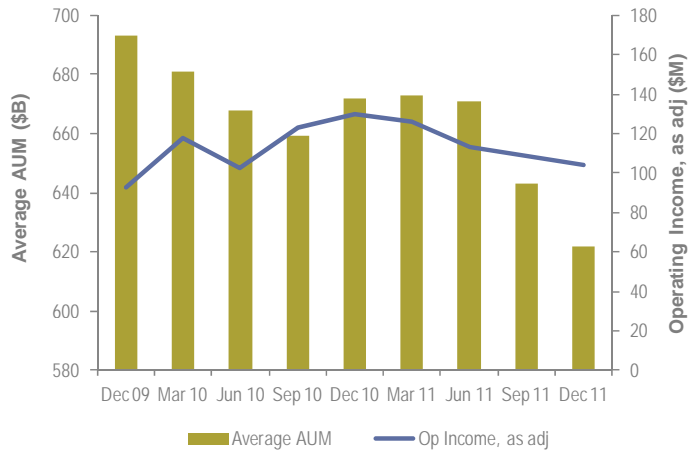
**Outstanding
independent
investment
managers**

**A corporate
center that delivers
strategic value**

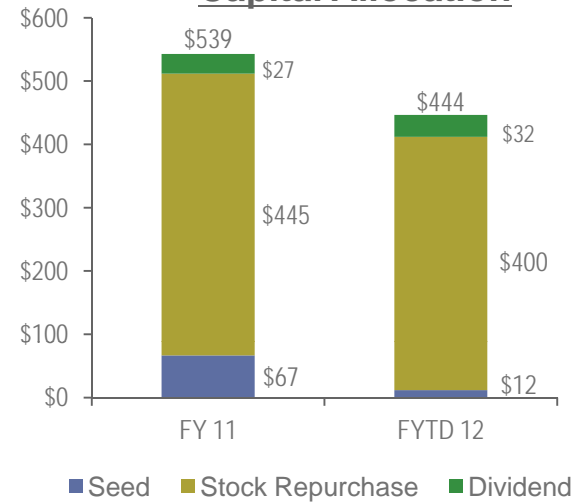
**A balanced portfolio
across asset
classes, geographies
and channels**

Positioned for Long Term Earnings Leverage

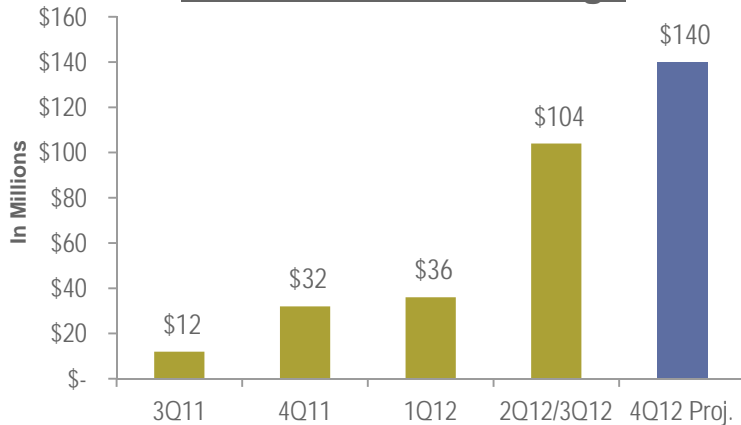
Operating Income, as adjusted¹



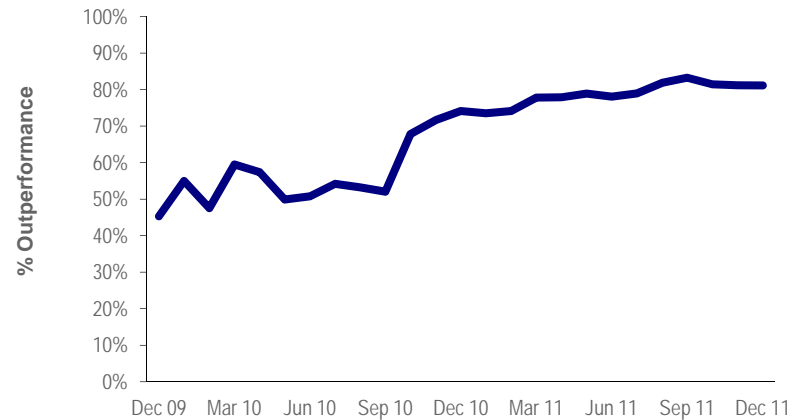
Capital Allocation



Annualized Cost Savings



3 Year Composite Outperformance²



¹See Appendix for GAAP reconciliation
²December 31, 2011. Includes liquidity.
 Benchmark source: Lipper and Morningstar

Appendix

Streamlined Legg Mason Business Model



New Products Target Long-Term AUM Growth

Top product launches

Product	Launch Date	Assets at Dec-11
Legg Mason Foreign Investment Grade Credit Bond Fund	Feb-09	\$ 6.5B
Legg Mason Brazilian Government Bond Fund	Oct-08	\$ 4.3B
Legg Mason Australian Bond Fund	May-08	\$ 2.5B
ClearBridge Energy MLP Fund	Jun-10	\$ 1.9B
Legg Mason Global Plus	Aug-07	\$ 1.3B
RLJ Western Asset Public/Private Master Fund	Nov-09	\$ 1.2B
Legg Mason Brandywine Global Opportunities Bond Fund	Nov-06	\$ 1.1B
Legg Mason Global Multi Strategy Bond Fund	May-08	\$ 823M
ClearBridge Energy MLP Opportunity Fund	Jun-11	\$ 766M
Legg Mason Western Asset Asian Opportunities Bond Fund	Jun-08	\$ 731M

Appendix - GAAP Reconciliation

Consolidated Statements of Income excluding Investment Vehicles¹

(\$ millions)	Quarter Ended December 31, 2011			Quarter Ended September 30, 2011			Quarter Ended December 31, 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
Operating Revenues:									
Investment advisory fees	\$ 545.2	\$ 0.8	\$ 546.0	\$ 582.8	\$ 0.6	\$ 583.5	\$ 625.1	\$ 1.2	\$ 626.3
Distribution and service fees	80.7	-	80.7	85.8	-	85.8	95.5	-	95.5
Other	1.0	-	1.0	1.3	-	1.3	1.3	-	1.3
Total operating revenues	627.0	0.8	627.7	669.9	0.6	670.5	721.9	1.2	723.1
Operating Expenses:									
Compensation and benefits	263.2	-	263.2	270.0	-	270.0	309.2	-	309.2
Distribution and servicing	148.3	(0.0)	148.3	160.4	(0.0)	160.4	187.4	(0.0)	187.4
Other	156.2	(0.1)	156.1	132.7	(0.2)	132.4	128.3	0.5	128.9
Total operating expenses	567.7	(0.1)	567.6	563.0	(0.3)	562.8	624.9	0.5	625.5
Operating Income	59.3	0.9	60.2	106.9	0.9	107.7	97.0	0.6	97.6
Other Non-Operating Income (Expense)									
Net interest income (expense)	(19.3)	-	(19.3)	(18.7)	-	(18.7)	(20.2)	-	(20.2)
Other income (expense)	7.7	(7.8)	(0.1)	(32.4)	(1.5)	(33.9)	10.3	7.7	18.0
Other non-operating income (expense)	(11.6)	(7.8)	(19.4)	(51.1)	(1.5)	(52.6)	(9.8)	7.7	(2.2)
Income Before Income Tax Provision	47.7	(6.9)	40.8	55.8	(0.6)	55.1	87.2	8.3	95.5
Income tax (benefit) provision	12.6	-	12.6	(1.6)	-	(1.6)	33.8	-	33.8
Net Income	35.1	(6.9)	28.2	57.4	(0.6)	56.7	53.4	8.3	61.7
Less: Net income (loss) attributable to noncontrolling interests	7.0	(6.9)	0.1	0.7	(0.6)	0.1	(8.3)	8.3	0.0
Net Income Attributable to Legg Mason, Inc.	\$ 28.1	\$ -	\$ 28.1	\$ 56.7	\$ -	\$ 56.7	\$ 61.6	\$ -	\$ 61.6
Effective Income Tax Rate	26.4%			-2.9%			38.8%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			30.9%			-2.9%			35.4%

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

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Dec 11	Sep 11	Dec 10
(\$ millions, except per share amounts)			
Net Income attributable to Legg Mason, Inc.	\$ 28.1	\$ 56.7	\$ 61.6
Plus (Less):			
Amortization of intangible assets	4.9	5.5	5.8
Deferred income taxes on intangible assets:			
Tax amortization benefit	34.0	34.0	33.7
UK tax rate adjustment	-	(18.3)	-
Imputed interest on convertible debt	9.8	9.7	9.2
Adjusted Income	<u>\$ 76.8</u>	<u>\$ 87.6</u>	<u>\$ 110.3</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.20	\$ 0.39	\$ 0.41
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.24	0.24	0.22
UK tax rate adjustment	-	(0.13)	-
Imputed interest on convertible debt	0.07	0.07	0.06
Adjusted Income per Diluted Share	<u>\$ 0.55</u>	<u>\$ 0.61</u>	<u>\$ 0.73</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								
	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11
Operating Revenues, GAAP basis	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.9	0.5	0.8	1.0	1.2	1.2	1.1	0.6	0.8
Distribution and servicing expense excluding consolidated investment vehicles	<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>	<u>(160.4)</u>	<u>(148.3)</u>
Operating Revenues, as adjusted	<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>	<u>\$ 510.1</u>	<u>\$ 479.5</u>
Operating Income, GAAP basis	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	12.6	11.2	(4.6)	22.1	8.6	10.2	(2.4)	(14.2)	1.7
Transition-related costs	-	-	3.2	11.6	24.0	15.7	13.7	15.1	42.3
Operating income and expenses of consolidated investment vehicles	<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>	<u>0.9</u>	<u>0.9</u>
Operating Income, as adjusted	<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>	<u>\$ 108.6</u>	<u>\$ 104.2</u>
Operating margin, GAAP basis	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	14.0%	16.0%	9.5%
Operating margin, as adjusted	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	21.0%	21.3%	21.7%

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