

Second Quarter Review October 27, 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.

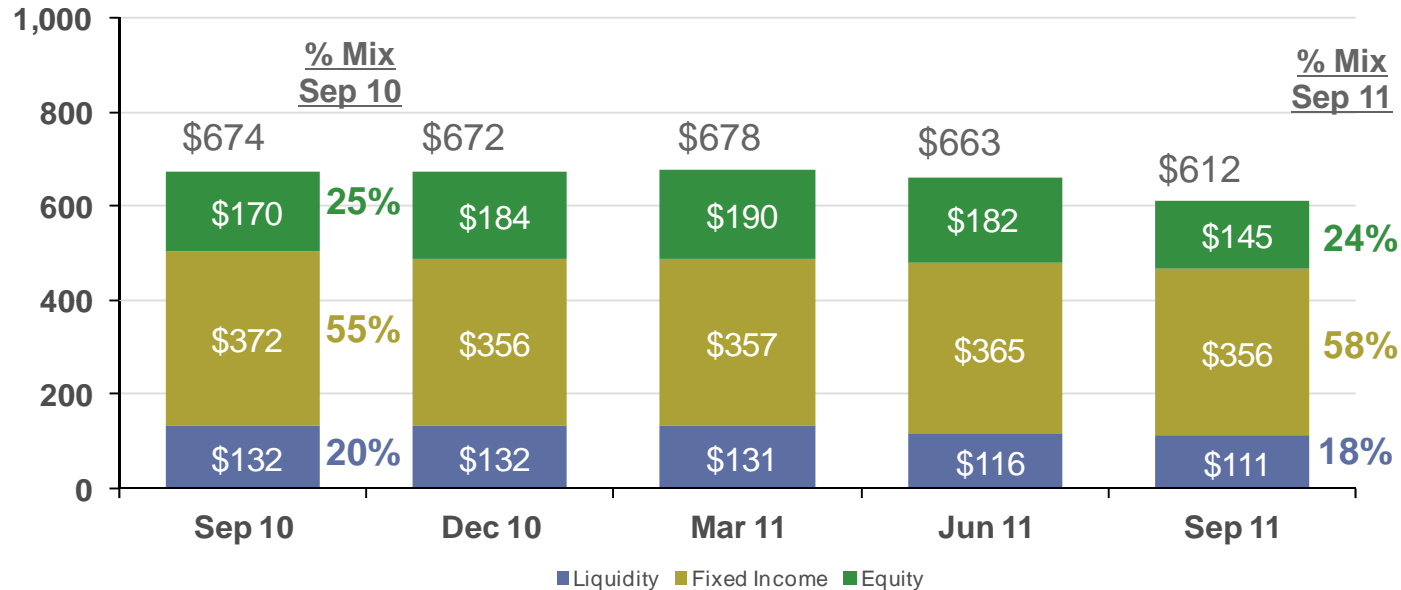
For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2011 and in the Company’s quarterly reports on Form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

Second Quarter Highlights

- Net Income \$56.7M or \$0.39 per diluted share
- Adjusted Income \$87.6M or \$0.61 per diluted share
- Results reflect significant market volatility in August and September
 - AUM of \$612B, impacted by \$33B of market depreciation (including \$4B related to FX)
 - Net MTM losses on corporate investments - \$20M
- Realized \$26M in transition-related savings
- Lower effective tax rate reflecting impact of U.K. tax rate reduction
- Repurchased 7.6M shares in second quarter, 13.6M fiscal year to date, and 28.2M shares since the Board authorized the current program

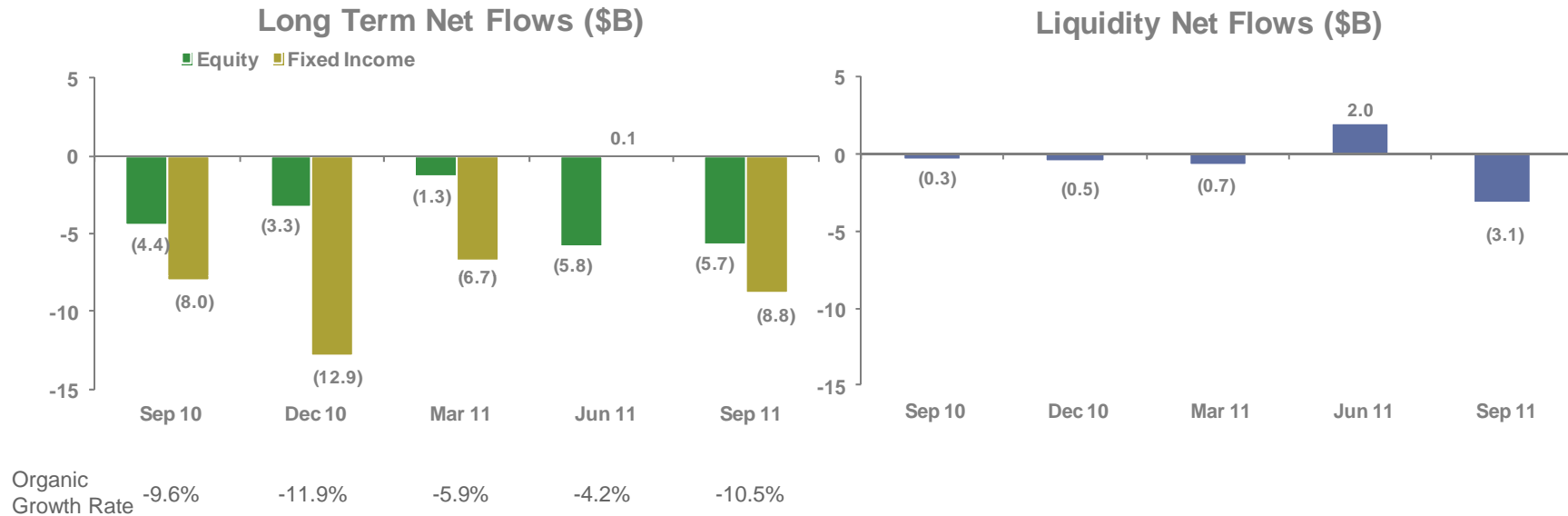
Assets Under Management by Asset Class

(\$ billions)



- Market depreciation \$32.9B, including FX impact of \$4.2B
 - Equity AUM market depreciation \$30.9B
- Average AUM of \$643B down \$28B or 4% compared to prior quarter

Net Flows



- Fixed Income net outflows largely due to portfolio rebalancing, client shifts to passive strategies, and continued reduction in Global Sovereign mandate
- Equity net outflows down slightly from prior quarter

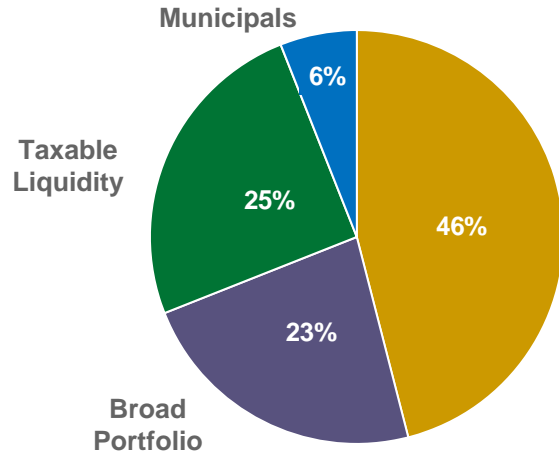
Assets Under Management (\$ billions)

AUM by Affiliate ¹	Sep 11 AUM	Jun 11 AUM	Sep 10 AUM	% Change vs.	
				Jun 11	Sep 10
Western Asset	\$ 433.4	\$ 446.9	\$ 469.1	(3) %	(8) %
Permal Group	18.7	20.9	18.5	(11) %	1 %
Royce & Associates	33.3	43.4	34.0	(23) %	(2) %
ClearBridge	47.4	57.4	51.3	(17) %	(8) %
Batterymarch	16.8	22.6	22.0	(25) %	(23) %
Brandywine	31.2	32.7	31.4	(5) %	(1) %
LM Capital Mgmt	8.7	11.6	15.5	(25) %	(44) %

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

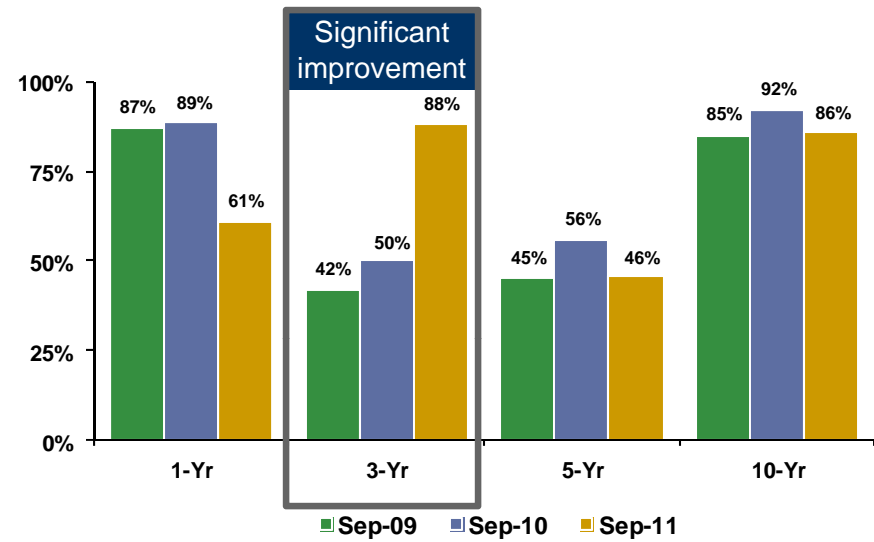
Western Update

Total AUM by Mandate: \$433B

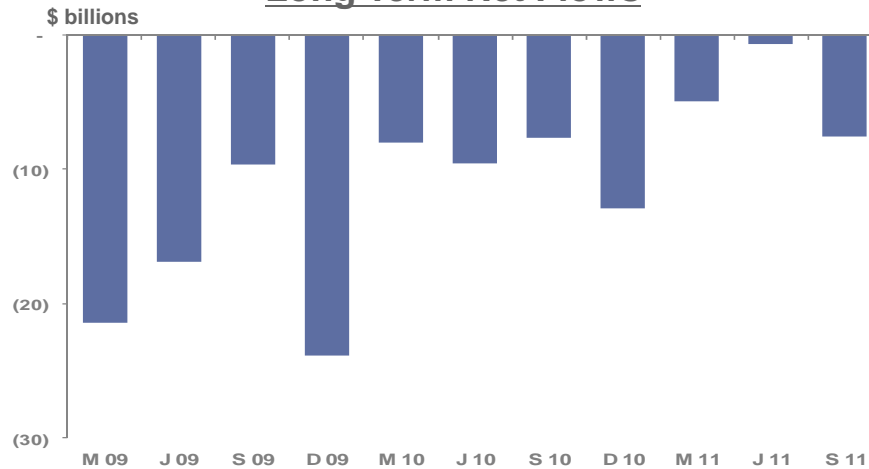


Specialized
 (Corporate, Emerging Markets, Long Duration, Global Portfolio, Inflation- Linked)

% of Composite AUM Beating Benchmark¹

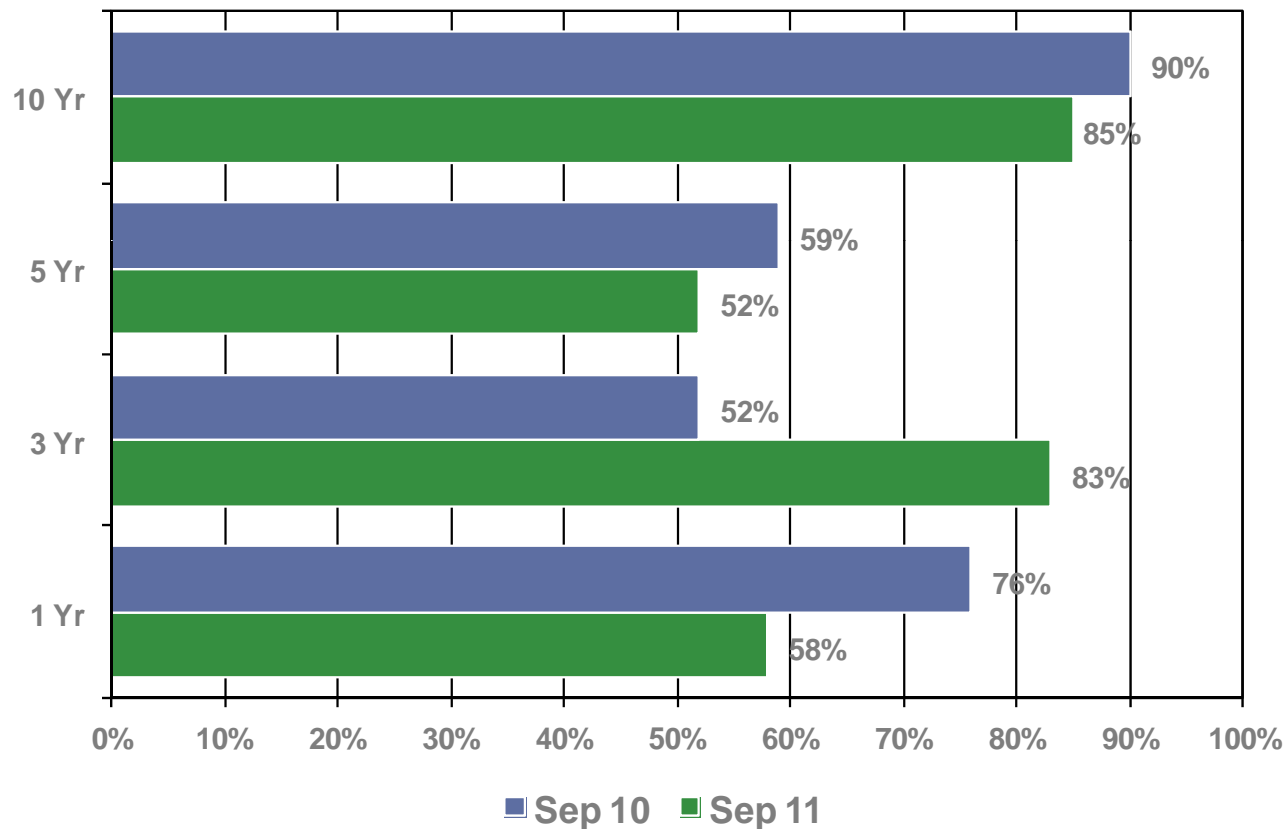


Long Term Net Flows



Marketed Composite Performance¹

% of AUM beating Benchmark

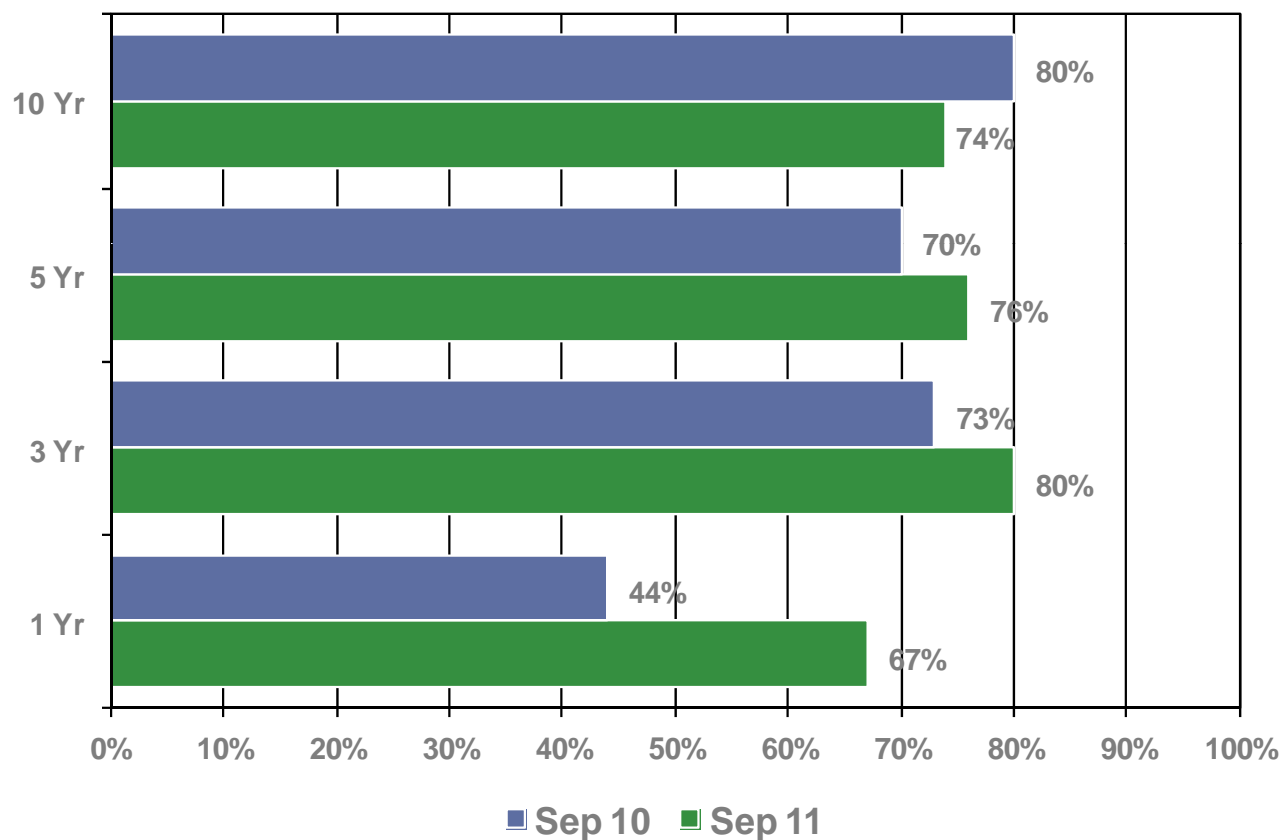


¹ Represents 89% of total AUM as of September 30, 2011. Includes liquidity.

Benchmark source: Lipper and Morningstar

Long-Term Fund Performance

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



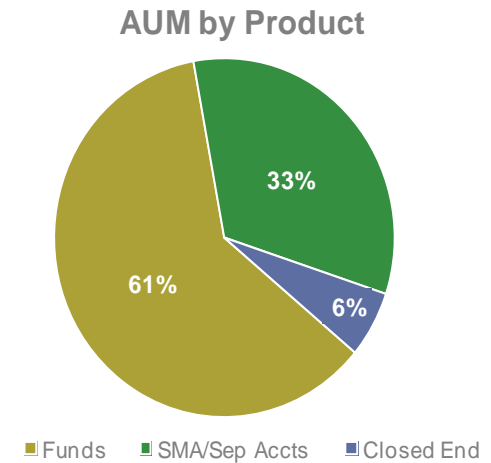
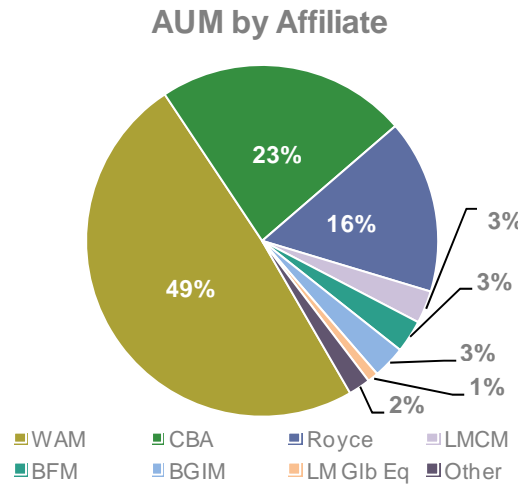
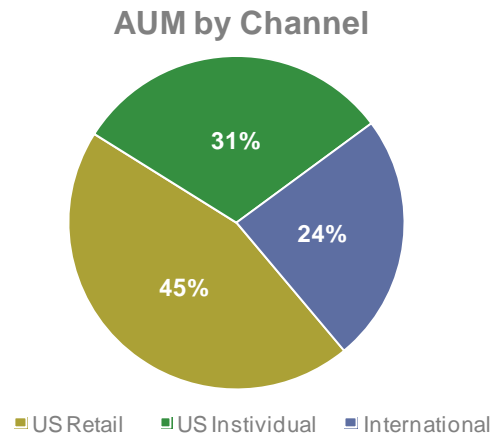
¹ As of September 30, 2011, includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc. and Morningstar
Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund.
Individual fund performance will differ.

Global Distribution - Overview

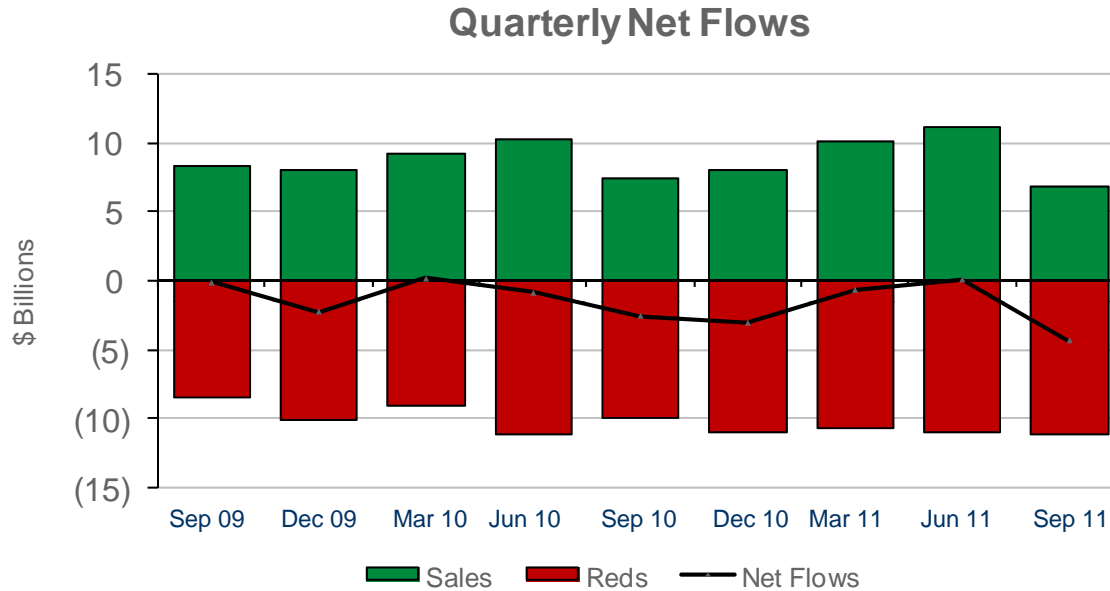
Overview: Centralized Distribution Platform for Retail, Individual and Selected International Institutional Markets

Total AUM: \$203 Billion

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

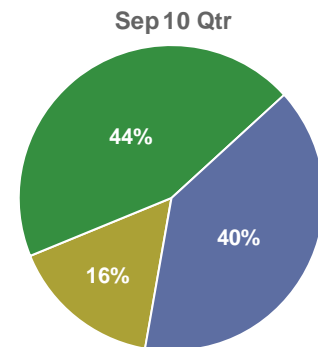
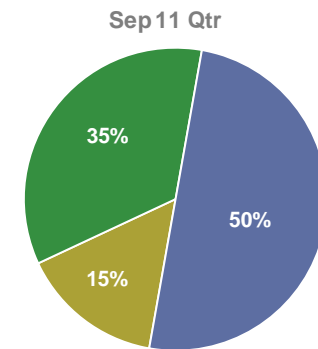


US Distribution Long-Term Flow Trends



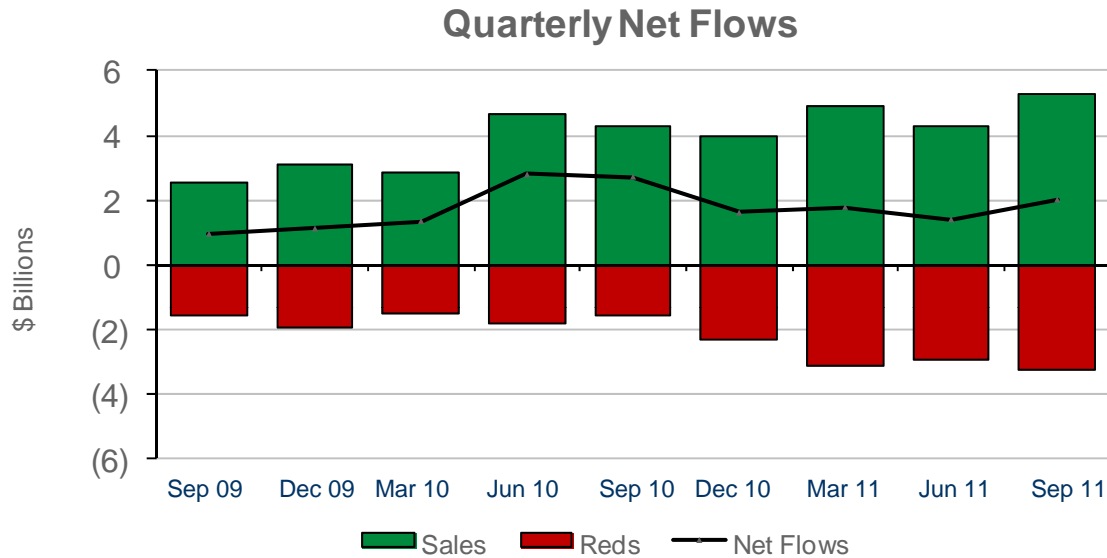
- June quarter included large sub-advisory win and sales related to closed-end fund launch

Gross Sales by Channel



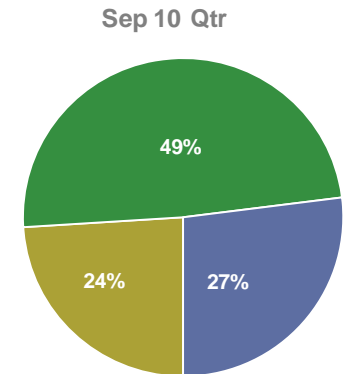
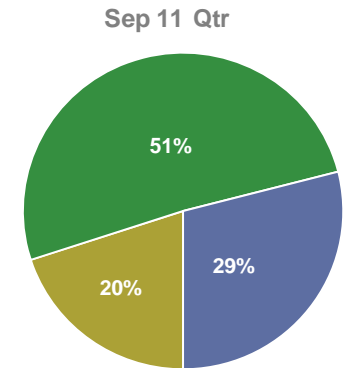
Represents sales, redemptions and net flows by Legg Mason's Global Distribution – US operations

International Distribution Long-Term Flow Trends



- Eleven quarters of positive net flows led by 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

New Products Target Long-Term AUM Growth

Top product launches

Product	Launch Date	Assets at Sep-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	\$ 1.9B
ClearBridge Energy MLP Fund	Jun-10	\$ 1.7B
Legg Mason Global Plus	Aug-07	\$ 1.4B
RLJ Western Asset Public/Private Master Fund	Nov-09	\$ 1.3B
Legg Mason Brandywine Global Opportunities Bond Fund	Nov-06	\$ 874M
Legg Mason Global Multi Strategy Bond Fund	May-08	\$ 807M
Legg Mason Western Asset Asian Opportunities Bond Fund	Jun-08	\$ 737M
ClearBridge Energy MLP Opportunity Fund	Jun-11	\$ 684M

Financial Highlights Second Quarter FY 2012

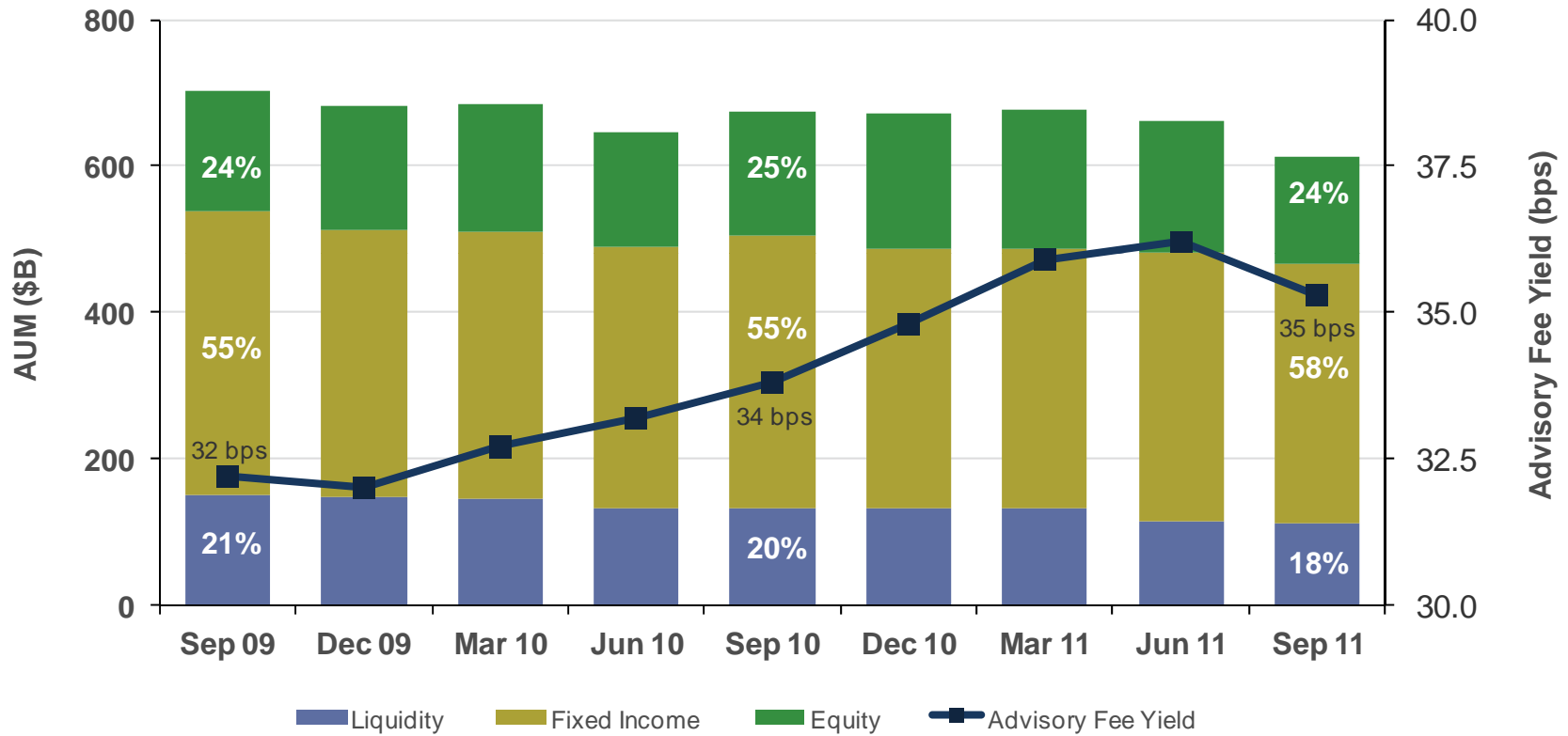
- Net Income \$56.7M, \$0.39 per diluted share
- In second quarter FY 2012
 - Average AUM of \$643B, down \$28B from June quarter
 - Change largely reflects equity market depreciation
 - Operating revenues \$670M, down \$47M or 7% from prior quarter
 - Decrease primarily reflects impact of lower average equity AUM and reduction in performance fees
 - Operating expenses of \$563M decreased \$54M or 9% from prior quarter
 - Decrease primarily driven by:
 - Lower compensation and benefit costs related to revenue reduction and mark to market
 - Lower corporate costs from transition-related savings
 - Lower distribution and servicing expense due to lower revenue and prior quarter closed-end fund launch
 - Operating income \$107M, operating margin 16%
 - Adjusted income¹ \$88M or \$0.61 per diluted share
 - Operating margin, as adjusted¹, 21.3%

Operating Results Second Quarter FY 2012

(\$ millions, except per share amounts)	Sep 11 Qtr	Jun 11 Qtr	Sep 10 Qtr	\$ Change vs.	
				Jun 11	Sep 10
Operating Revenues	\$ 669.9	\$ 717.1	\$ 674.8	\$ (47.2)	\$ (4.9)
Operating Expenses	563.0	616.7	586.9	(53.7)	(23.9)
Operating Income	106.9	100.4	87.9	6.5	19.0
Net Income	56.7	60.0	75.3	(3.3)	(18.6)
Diluted EPS	0.39	0.40	0.50	(0.01)	(0.11)
Adjusted Income¹	87.6	109.1	115.0	(21.5)	(27.4)
Adjusted Income per diluted share	0.61	0.73	0.76	(0.12)	(0.15)
Operating Margin, as adjusted¹	21.3%	21.0%	24.1%		
Effective Tax Rate	(2.9)%	31.1%	25.9%		

¹ See Appendix for GAAP reconciliation

Advisory Fee Yield / Assets Under Management



Operating Expenses

(\$ millions)	Sep 11	Jun 11	% Chg	Sep 10	% Chg
Compensation and benefits	\$ 270.0	\$ 311.7	(13%)	\$ 295.9	(9%)
Distribution and servicing	160.4	180.8	(11%)	165.8	(3%)
Communications and technology	41.6	40.5	3%	39.3	6%
Occupancy	35.7	33.2	7%	33.5	7%
Amortization of intangible assets	5.5	5.6	(1%)	5.7	(4%)
Other	49.8	44.9	11%	46.7	7%
Total Operating Expenses	<u>\$ 563.0</u>	<u>\$ 616.7</u>	(9%)	<u>\$ 586.9</u>	(4%)

- Decrease in compensation and benefits driven by lower revenues
- June 11 operating expenses include closed-end fund launch costs of \$11.4M primarily in distribution and servicing
- Increased communications costs driven by higher transition-related costs
- Increased occupancy expenses reflect lease loss reserve adjustments
- Other expenses include increased costs related to seasonal corporate governance and advertising, trading losses (offset in compensation), and foreign exchange

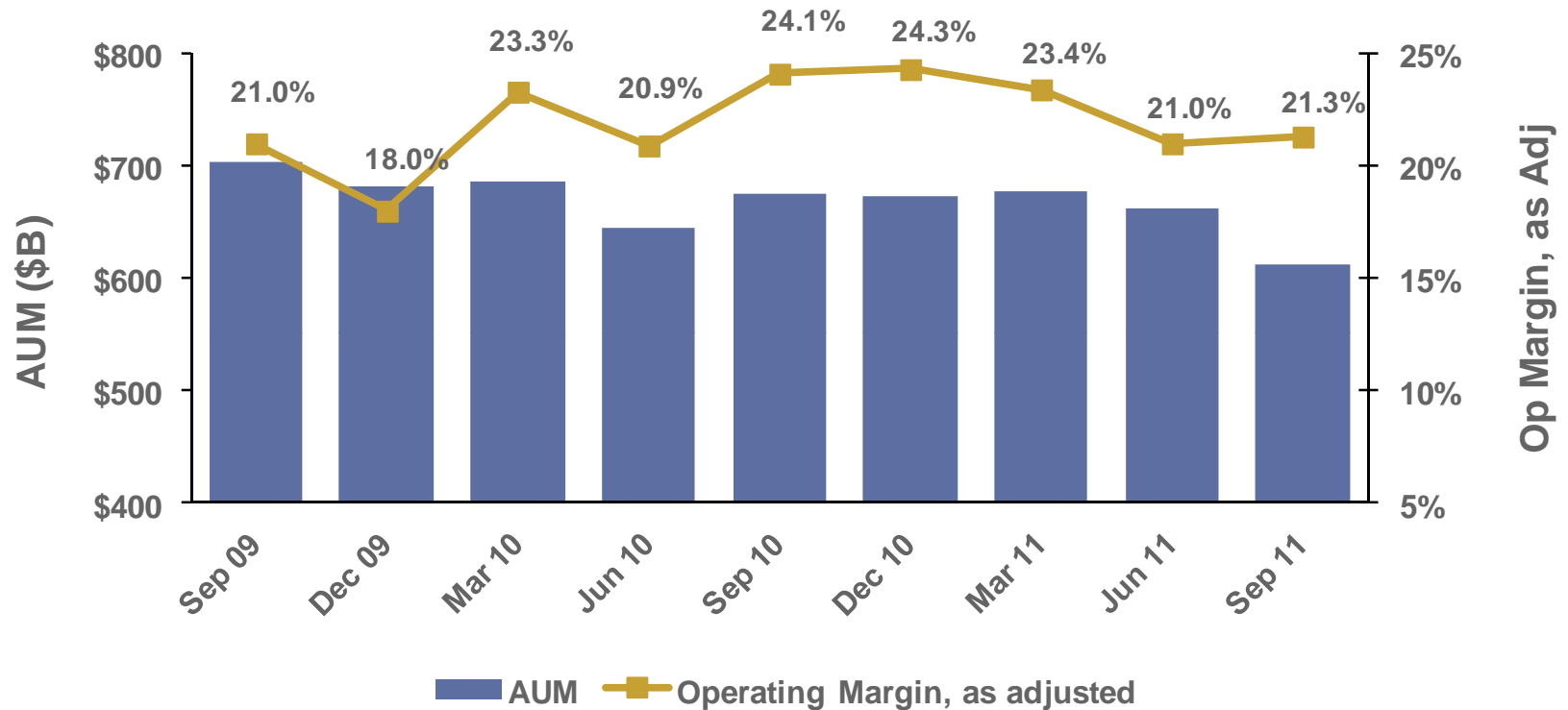
Compensation and Benefits

(\$ millions)	Sep 11	% of Net Rev. ¹	Jun 11	% of Net Rev.	\$ Change
Salary and incentives	\$ 226.9	44%	\$ 245.7	46%	\$ (18.8)
Benefits and payroll taxes	44.7	9%	56.7	10%	(12.0)
Subtotal Compensation and benefits	271.6	53%	302.4	56%	(30.8)
Transition-related costs and severance	12.6	3%	11.7	2%	0.9
MTM deferred comp. and seed investments	(14.2)	(3%)	(2.4)	(0%)	(11.8)
Total Compensation and Benefits	\$ 270.0	53%	\$ 311.7	58%	(41.7)

- Total Compensation and benefits reflect:
 - Decreased incentives due to lower revenues and lower corporate costs driven by streamlining initiatives
 - Compensation offset related to mark to market losses on deferred compensation and seed investments
 - Decreased seasonal payroll taxes and other benefit costs
- Decrease in compensation ratio reflects impact of June quarter closed-end fund launch of 1%, combined with change in AUM mix driven by equity depreciation

¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



- Impact of June quarter closed-end fund launch on operating margin, as adjusted approximately 1.7%

Update on Streamlining our Business Model

- Second quarter transition-related savings total approximately \$26M
- No additional savings projected until fourth quarter FY 2012
- Transition-related expenses for the second quarter \$15M
- Transition-related expenses incurred to date \$83M, \$29M this fiscal year
- Projected costs and savings related to streamlining initiatives remain on target¹
 - Approximately \$130M - \$150M annualized savings to be realized by fourth quarter FY 2012
 - Restructuring and related costs estimated between \$125M - \$135M
- Transition-related expenses for the third quarter estimated at \$45M
- Estimated Q4 savings of \$35M
- Q4 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, performance fees in range of \$10 - \$15 million, no unanticipated material expenses, and diluted shares outstanding remain relatively unchanged from current quarter. Achievement of all projected savings, as well as amount of restructuring and transition-related cost, will be affected by many factors, including market conditions and other factors affecting the financial results of Legg Mason and the affiliates. Actual results may differ from assumptions.

Capital Allocation

- 28.2M shares or 17% of shares outstanding were repurchased since the Board authorization on May 10, 2010
- Approximately \$200M of shares repurchased in September 2011 quarter with \$155M remaining on Board authorized repurchase

Shares Repurchased	Transaction
14.6M	Share repurchase - FY 2010
6.0M	Open market share repurchase – QE June 2011
7.6M	Open market share repurchase – QE September 2011
28.2M	Total shares repurchased under \$1B Board authorization announced last year

- Dividend payout has increased from \$0.04 to \$0.08 since September 2010
- Seed Investments \$421M. Net investments over past six quarters of \$97M

Strategy to Deliver Value

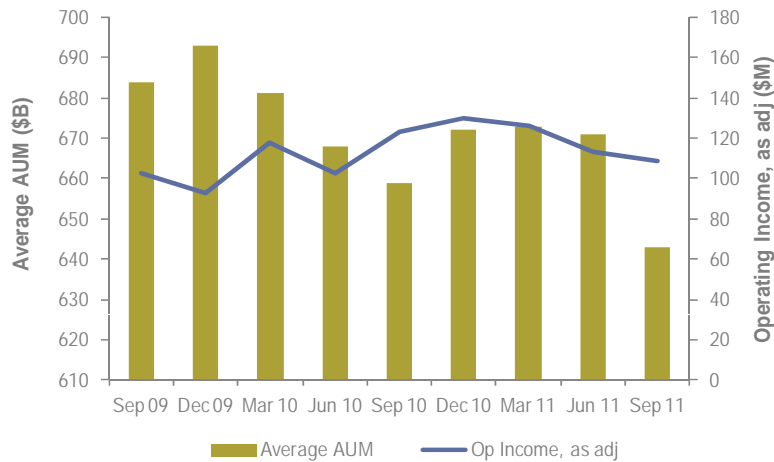
**Outstanding
independent
investment
managers**

**A corporate
center that delivers
strategic value**

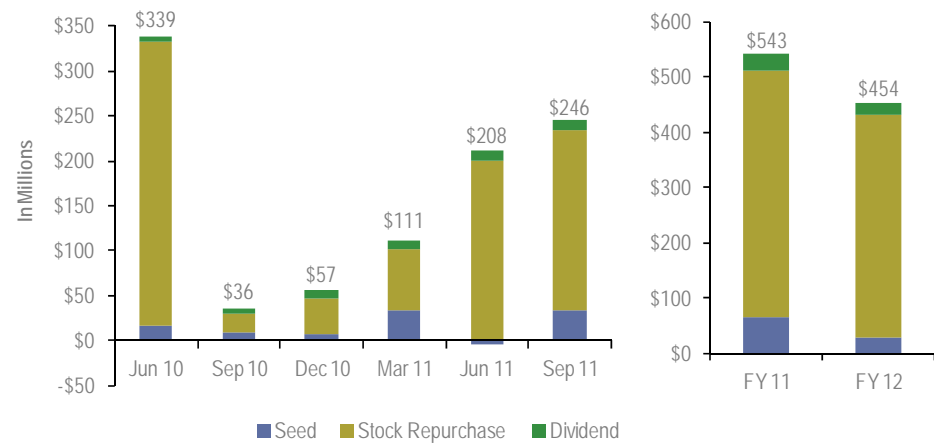
**A balanced portfolio
across asset
classes, geographies
and channels**

Positioned for Long Term Earnings Leverage

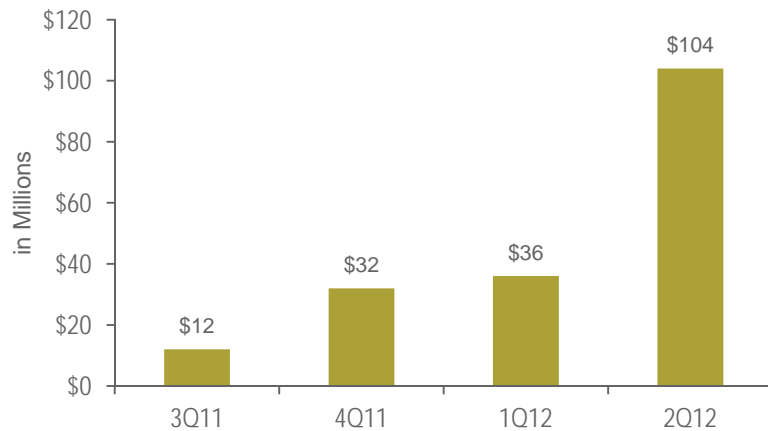
Operating Income, as adjusted¹



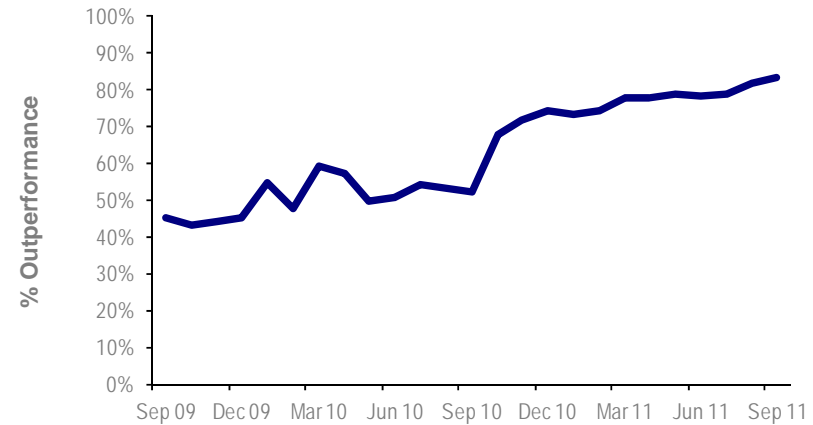
Capital Allocation



Annualized Cost Savings



3 Year Composite Outperformance²



¹See Appendix for GAAP reconciliation
²September 30, 2011. Includes liquidity.
 Benchmark source: Lipper and Morningstar

Appendix

Appendix - GAAP Reconciliation

Consolidated Statements of Income excluding Investment Vehicles¹

	Quarter Ended September 30, 2011			Quarter Ended June 30, 2011			Quarter Ended September 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	\$ 582.8	\$ 0.6	\$ 583.5	\$ 623.6	\$ 1.1	\$ 624.6	\$ 581.2	\$ 1.0	\$ 582.2
Distribution and service fees	85.8	-	85.8	92.1	-	92.1	92.3	-	92.3
Other	1.3	-	1.3	1.5	-	1.5	1.3	-	1.3
Total operating revenues	669.9	0.6	670.5	717.1	1.1	718.2	674.8	1.0	675.8
Operating Expenses:									
Compensation and benefits	270.0	-	270.0	311.7	-	311.7	295.9	-	295.9
Distribution and servicing	160.4	(0.0)	160.4	180.8	(0.0)	180.7	165.8	0.0	165.8
Other	132.7	(0.2)	132.4	124.2	(0.1)	124.1	125.2	(0.5)	124.7
Total operating expenses	563.0	(0.3)	562.8	616.7	(0.1)	616.6	586.9	(0.5)	586.4
Operating Income	106.9	0.9	107.7	100.4	1.2	101.5	87.9	1.5	89.4
Other Non-Operating Income (Expense)									
Net interest income (expense)	(18.7)	-	(18.7)	(19.3)	-	(19.3)	(22.3)	-	(22.3)
Other income (expense)	(32.4)	(1.5)	(33.9)	8.5	(2.8)	5.7	37.7	(2.7)	35.0
Other non-operating income (expense)	(51.1)	(1.5)	(52.6)	(10.8)	(2.8)	(13.6)	15.4	(2.7)	12.7
Income Before Income Tax Provision	55.8	(0.6)	55.1	89.6	(1.7)	87.9	103.3	(1.2)	102.1
Income tax (benefit) provision	(1.6)	-	(1.6)	27.9	-	27.9	26.7	-	26.7
Net Income	57.4	(0.6)	56.7	61.7	(1.7)	60.0	76.6	(1.2)	75.4
Less: Net income (loss) attributable to noncontrolling interests	0.7	(0.6)	0.1	1.7	(1.7)	0.1	1.3	(1.2)	0.1
Net Income Attributable to Legg Mason, Inc.	\$ 56.7	\$ -	\$ 56.7	\$ 60.0	\$ -	\$ 60.0	\$ 75.3	\$ -	\$ 75.3
Effective Income Tax Rate	-2.9%			31.1%			25.9%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			-2.9%			31.7%			26.2%

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

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Sep 11	Jun 11	Sep 10
(\$ millions, except per share amounts)			
Net Income attributable to Legg Mason, Inc.	\$ 56.7	\$ 60.0	\$ 75.3
Plus (Less):			
Amortization of intangible assets	5.5	5.6	5.7
Deferred income taxes on intangible assets:			
Tax amortization benefit	34.0	34.0	33.7
UK tax rate adjustment	(18.3)	-	(8.9)
Imputed interest on convertible debt	9.7	9.5	9.1
Adjusted Income	<u>\$ 87.6</u>	<u>\$ 109.1</u>	<u>\$ 115.0</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.39	\$ 0.40	\$ 0.50
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.24	0.23	0.22
UK tax rate adjustment	(0.13)	-	(0.06)
Imputed interest on convertible debt	0.07	0.06	0.06
Adjusted Income per Diluted Share	<u>\$ 0.61</u>	<u>\$ 0.73</u>	<u>\$ 0.76</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								
	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
Operating Revenues, GAAP basis	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.6	0.9	0.5	0.8	1.0	1.2	1.2	1.1	0.6
Distribution and servicing expense excluding consolidated investment vehicles	<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>	<u>(160.4)</u>
Operating Revenues, as adjusted	<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>	<u>\$ 510.1</u>
Operating Income, GAAP basis	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	24.1	12.6	11.2	(4.6)	22.1	8.6	10.2	(2.4)	(14.2)
Transition-related costs	-	-	-	3.2	11.6	24.0	15.7	13.7	15.1
Operating income and expenses of consolidated investment vehicles	<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>	<u>0.9</u>
Operating Income, as adjusted	<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>	<u>\$ 108.6</u>
Operating margin, GAAP basis	11.8%	11.5%	15.8%	15.2%	13.0%	13.4%	13.9%	14.0%	16.0%
Operating margin, as adjusted	21.0%	18.0%	23.3%	20.9%	24.1%	24.3%	23.4%	21.0%	21.3%

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